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Editorial Comment

(Contributed)

Qualifications in Audit Reports

Audit report qualifications may be divided into two broad classifications, namely, those qualifications arising under circumstances where the auditor is unable to form an opinion due to the fact that he has been unable to verify to his satisfaction given items, and those qualifications arising under circumstances where the independent verification has revealed a situation differing from that disclosed by the directors' balance sheet and operating statement.

In one type of qualification which the auditor considers necessary, he states: "We are unable to form an opinion as to the sufficiency of the reserves set aside for loss on loans and real estate, which amount to . . ." In this situation little can be done other than clearly to indicate the point or points for which a satisfactory verification could not be made in the report to the shareholders. A question does arise whether it is not logical under such circumstances that the shareholders should in addition be informed as to the actual conditions underlying the failure on the part of the auditor to verify satisfactorily the item or items under consideration.

A certain degree of doubt appears to exist in the case of the second situation as to the exact extent of the auditor's responsibility. He reports:

" . . . in our opinion the provision for depreciation for the year is sufficient while the accumulated reserves are not adequate . . .

"The inventories of . . . are valued on the attached balance sheet on the basis of cost of \$. . . , which was approximately \$. . . higher than replacement value as at 31st December 1937; the net profit shown for the year 1937 is therefore greater by this amount than it would have been had the inventories been valued on the basis of cost or replacement, whichever was lower."

The question arises whether or not the expression of an opinion by the auditor to the shareholders, subject to a qualification where the auditor's opinion is at variance with the opinion expressed by the directors in their balance sheet, fully meets his responsibility to the shareholders unless supporting evidence of the amounts involved are also included. If the qualification of this nature is to be of real usefulness to the shareholders are not the amounts involved of as much significance as the nature of the qualification?

War Contracts In order to keep production at a maximum it is essential that restrictions imposed on business be such that they will not destroy the "productive motive" or remove the producer's interest in rational management and in the maintenance of minimum costs. One of the main forms of restriction which have been placed upon business to date has been through the channel of profits which may either take the form of specified taxes or particular types of contracts.

W. W. Williams in a leading article published in *The Accountant* (London) 21st February 1942 discusses the question of contracts with specific reference to the various methods of remunerating management as set out in the Fourth Report of the Select Committee on National Expenditure. The conclusion drawn is that the highest degree of efficiency can be achieved by fixing prices so keenly that management must strive for better organization and greater output in order to earn profits. The suggestion is offered that the whole of the output be paid for on cost and that the profits

which the contractor is entitled to receive should be based on the degree to which he has been able to keep his costs down.

Until recently in Germany the prices of war materials were based upon the costs of individual producers which it was found did not allow for rewarding efficient producers or discouraging excessive costs of manufacture. This was followed by a system of fixed prices with exemptions allowed from excess profit deductions which broke down due mainly to its rigidity. On 2nd February 1942 a decree was issued by the German Price Commission providing for a uniform and group price system which was designed primarily to step up production.

Suppliers were classified into groups, such classification being determined by relative costs of production. The price paid to any group for war materials was determined by the cost of production of the "representative" firm within the group. A "uniform price" was determined from the group price of the lowest cost of production group. Incentives in the form of exemption of profits from excess profit deductions and priority claims for labour and materials are offered to bring the higher cost groups into closer conformity with the uniform price group.

Subsidies and Price Control

Various methods are utilized by governmental agencies for increasing the supplies of given commodities. The most significant of these methods is the payment of subsidies.

Under conditions where a country is entirely self-supporting and where no price variance exists as between the date of production and date of consumption, the stabilization of prices would cause little friction and could be brought about with a minimum of governmental action. The difficulties of the price administration under such conditions would be merely those of determining that scarce supplies were equitably distributed and that the diversion of resources from non-essential consumption channels was successfully and expeditiously carried out. There would not necessarily be any pressure of costs upon prices. Unfortunately the two conditions mentioned do not exist in the Canadian economy. An examination of each of the condi-

tions separately will serve to indicate the manner in which their respective effects are neutralized or absorbed by subsidies.

Condition

No. 1 — External

Where a country is forced to obtain a part of its necessary requirements of commodities from external sources, it is faced with a situation where it is unable to exercise any control over the prices at which such external commodities may be purchased. Under this condition, if the price ceiling and the supply of such goods are to be maintained, a "squeeze" is necessary. In deciding upon whom the "squeeze" is to fall, due consideration must be given to the maintenance of an adequate supply of the commodity in question. The whole of the burden might be distributed between the producer, wholesaler or retailer, but if the imposition of the whole of the burden in this manner results in costs in excess of revenue, the supply of the commodity will no doubt be cut down. When this situation arises, and the commodity is so essential that its supply must be maintained if possible, direct steps are taken by the government either in the form of direct subsidies or in the form of indirect subsidies, as alteration or elimination of duties imposed on such goods. The government may also absorb a portion of the "squeeze" by purchasing (through the Commodity Prices Stabilization Corporation) the commodity at the prevailing price and reselling it to the trade at a price which will enable both the price ceiling and the supply of the commodity to be maintained.

Condition

No. 2 — Internal

Let us look at the second condition. The internal or domestic situation in Canada at the time the over-all ceiling was placed upon prices presented a rather substantial disparity in the prices of certain commodities as between the producer and the retailer. This was caused by a time lag between actual production and ultimate sale during which time lag prices were increasing. The freezing of prices at the consumer's point meant that the increased costs of the producer which had not filtered through to the consumer had to be spread between the producer, wholesaler and retailer. Where the spreading or "rolling back" of the "squeeze" resulted in decreasing the supply of essential

commodities, active steps were taken by the government to absorb a portion of the "squeeze" in the form of subsidies.

Unlike the external situation the government is enabled in the field of the domestic subsidies to bring some pressure to bear in respect to costs. The granting of the subsidy merely attempts to relieve to some degree the pressure of the "squeeze" but does not seek to leave the industry in a better profit position than before the price ceiling was imposed. Special pressure is brought to bear for a reduction of costs by the firm receiving the subsidy through standardization, simplification and elimination of all unnecessary frills and services. The aim is to reduce costs to such a point as to relieve the government of the necessity of paying the subsidy. In the case of the leather, footwear and clothing industry in Canada the payment of the subsidy was made pending the working out of measures to eliminate unnecessary costs.

Special conditions require special treatment. This is particularly illustrated in the case of grocery subsidies where the disparity in the retail prices for the same commodity governed by varying time lags between production and consumption made a special treatment necessary. This situation was met by requiring that the subsidy should not increase the net profits of the business after taxes beyond the level of net profits after taxes in the standard period as established for excess profit tax purposes.

The subsidy represents a mobile defense against the pressure of costs on prices. They are paid in the interest of the consumer in order to insure that adequate supplies of a particular product are forthcoming for the consumer at prices permitted by the price ceiling. In the same manner that the subsidy insures an adequate supply of a commodity, its withholding in the case of non-essentials serves to cut down the supply of such goods and accelerate the transfer of resources to the production of essentials.

*Paper
Economy*

The part that salvage has to play in the war economy is being impressed upon Canadians every day, and we publish elsewhere in this issue a note on the subject taken from a recent bulletin of the Director of Public Information. Closely connected with this subject is that of the destruction of old re-

cords, and an instructive article thereon by Mr. Ernest A. Davis appears also this month.

In Canada we have large supplies of wood pulp and there is no serious shortage of paper in sight. In Great Britain the picture is different. There they must conserve paper stocks. According to *The Secretary* (London), the monthly publication of The Chartered Institute of Secretaries, the British Board of Trade just recently issued a public notice to impress on companies the urgent need for every form of paper saving, especially in annual reports and prints of chairmen's speeches. Companies were urged also wherever possible to make available as salvage, if they had not already done so, unnecessary records such as old dividend sheets or books and paid dividend warrants. Many companies have responded well to this and to previous appeals for salvage and for paper economy.

In this connection an interesting point for professional accountants and company directorates came up in the British House of Commons. In reply to a question of a member as to wastage of paper through the circulation to all shareholders and to the press of copies of companies' annual reports, the Minister of Production referred to the obligation imposed by *The Companies Act, 1929*, to send to all shareholders in joint stock companies a copy of the directors' and auditors' reports. He added that the President of the Board of Trade had recently consulted responsible business and professional organizations, but had been advised against a relaxation of the requirement, which was considered to be an essential provision for the safeguarding of shareholders' interests. *The Secretary* adds that it is important in the war emergency to confine the report, which section 130 of *The Companies Act, 1929* requires to be circulated, to vital particulars only and to exercise a rigid economy in paper, and that the direction of the Board of Trade to companies in this particular must necessarily receive the active co-operation of the business community.

THE DESTRUCTION OF OLD RECORDS AS A WARTIME MEASURE

By Ernest A. Davis, Stamford, Connecticut

Editor's Note: Mr. Davis' article, which appeared in the 15th May *Bulletin* of the National Association of Cost Accountants, is on a timely subject and we have received the kind permission of the Association to publish it here. From 1927 to 1931 Mr. Davis was office manager of the Burroughs Adding Machine Company at Bridgeport and since the later date has been branch auditor of Pitney-Bowes Meter Company at Stamford.

THE problem of destroying records as soon as their real and contingent values expire is one which deserves a great deal more attention than it is receiving. Very few records have a value which extends beyond a brief period of time. When this subject does receive attention, it is usually from the viewpoint of retention. Since the item must eventually be destroyed, why not high-light the destruction factor?

Inactive records are potential waste paper. We know that there is a crying need for waste paper today. Inactive records fill steel file cases or cabinets. Under present priority conditions, the releasing of this equipment for active needs, is a helpful step in our victory effort. The substitution of wood or cardboard cases is not a fully satisfactory solution, and will not be until the Axis Powers have been weakened to the point where an incendiary air raid on our cities is an impossibility. This subject, therefore, takes its place as one of the many small but important wartime measures. Perhaps this factor has the necessary additional weight to bring the matter to general attention at this time.

Organization

The first step in handling the problem of record destruction is one of organization. The responsibility must be definitely delegated as a continuous assignment. Since we are dealing with a subject on which opinions will vary widely and on which no means of scientific determination may ordinarily be applied, it appears that a committee would best serve the purpose. Since definite decisions must be made, and concrete action taken, such a committee should number among its members at least one major executive of the company. The other members may be the head of the filing

department and the heads of departments which have jurisdiction over large quantities of records. A committee of three or four should be large enough to bring in a range of differing opinions, and yet small enough to avoid delay in extended discussions. Except during the initial period of planning and integration the demands on the time of these committee members should not be excessive.

The scope of this committee's responsibilities should be clearly stated. For the best results all records which are not in active daily use should be included, with the possible exception of the confidential records in the private files of executives. The records of an executive should surely be included if they extend beyond the filing space privately available to him, or if they become a major factor in his space requirements. A complete solution of the problem can only be reached when everyone from the president down lends active co-operation to the problem.

Definite Plan Necessary

The committee must lay out and then must follow some definite plan. This does not imply that a rigid routine must be set up and then slavishly followed. The plan must be elastic in form and must undergo constant revision in order to keep abreast of changing requirements. With no plan to guide its efforts, the committee would most certainly waste a great deal of time in aimless and futile gropings, owing to the extensive nature of the problem in an organization of even moderate size.

There are certain factors which should be a part of any well-laid record destruction plan:

1. A schedule of destruction dates which covers all records as far as possible
2. Periodic checking and revising of this schedule
3. Passing judgment promptly on items not covered by the schedule
4. Provisions for the proper housing of records while they are retained
5. Provisions for policing the committee's rulings.

Schedule of Destruction Dates

The preparation of a schedule of destruction dates is the most important undertaking of the committee. This will require a careful study of the actual and contingent values

of all inactive correspondence, forms and other records. Each item should be weighed with regard to its value to the particular business organization. Little attention should be given to the schedules of others, even in the same line of business. An intelligent solution of the problem should be possible within the organization and such outside factors may be misleading.

In evaluating a particular record, any claim as to benefits derived by having certain extremely old items available should be thoroughly examined. An attempt must be made to estimate the advantage in terms of dollars, rather than in personal satisfaction. Many apparent advantages do not show up well when given this test. It requires only simple arithmetic to show that, if \$50 can be saved by having available one particular ten-year old record, and the cost of storing all records of the same nature for ten years amounts to \$100, there is no real saving or advantage. If the records had been stored for five years, the saving in storage expense would exactly offset the advantage gained in having this one particular record available.

Employees who are active in a concern which has shifted its location a considerable distance will testify that when faced with the transportation cost of old records, radical revisions of opinions were made by those who are inclined to oppose the early destruction of any records.

Scheduling Destruction at Time of Organization

Many records, particularly correspondence, have no real or contingent value within a short time after their purposes have been consummated. Such items should be scheduled for destruction by the acting party at the very earliest date possible. If these items are not destroyed immediately after their purposes have been consummated, they may be placed in thirty- or sixty-day files. The valuable material, which should be retained for a greater length of time must be segregated. This can be done with the greatest efficiency if the filing status of each letter is immediately scheduled by the party who handles it.

Many large mail order houses return orders with the shipment of the items ordered. Against the possibility that they might render a service to some customer by keeping his order on file, they have offset the certainty of filing expenses. The committee must be constantly alert to this

condition. No record must be allowed to create filing expense, unless there is a strong probability that at least part of this expense will be recovered.

Setting Destruction Date for New Forms and Records

Once a schedule is established no new form or record should be created without providing for its destruction date. If a record adjudged to have a limited value for a short time, is to be set up, a thorough job of planning provides a time and a method for destroying it. While this seems to be a logical assumption, it is definitely true that in the majority of plans for new routines, forms are set up, detailed procedure for their proper use is laid out, and then as in fairy stories, the idea that they will all live happily ever after may be inferred.

No decision with regard to destroying a record should be made without asking the opinion of the department head who is vitally concerned; but too much weight to such opinions should not be given since the department heads all too frequently favour extensive retention of all records. Similarly, the opinions of the legal department should be asked; but except where statutes provide that certain records must be retained, this opinion must be considered as merely another opinion which is not to be overweighed. The committee should evaluate all available opinions in reaching a final decision.

Elimination of Duplicate Copies and Summaries

Fulllest consideration must be given to the number of copies of a record which are included in the file. With each department head meeting his own requirements, a business will almost certainly be maintaining duplicates or even more numerous copies of records which are nearly identical. After the necessary co-ordination work by the committee, it will in most cases be possible to dispose of all but one copy and still meet the requirements of all who are concerned.

Certain records are summarized, and the records and their summaries both find their way into the file. When the nature and value of these records are determined, it may be found that either the summary or the detailed records should be maintained for a considerable period, but that the retention of the alternate is useless. This factor is another element of duplication. Such duplication is a

matter which will require the constant alertness of the committee, if it is to be universally detected.

Cost of Maintaining Records

Having set up a destruction schedule, the committee must give due consideration to the cost of maintaining records from the time they become inactive until the date of their destruction. This cost will include the following elements:

1. Floor space
2. Equipment
3. Fire protection
4. Clerical handling
5. Transportation

Probably the easiest method of securing the co-operation of all department heads and officials in holding down the quantity of records retained, is to set up a standard cost per filing cabinet drawer or per cubic foot of shelf space, and to directly charge each department with the maintenance cost of its own records. This constantly recurring expense will concretely show that an occasional moderate-sized loss, caused by the failure to produce a certain required record, may be readily offset by the expense entailed in maintaining all the records of a similar nature for the extended period required.

There are organizations located in small towns near the metropolitan district which make a business of maintaining archives for concerns which are cramped for space or which are located in areas where the cost value of a square foot of floor space is excessive. Such an organization may be of help to a business which has adequate facilities provided for normal requirements but which meets some unusual requirements which are of a temporary nature. Since these organizations maintain the records in a readily accessible manner, any required information may be easily obtained by use of the telephone. If records which are not likely to be used frequently are retained, they should be packed in a manner which makes them less readily available; this results in a much lower cost of dead storage.

Items Included in Cost

When the company maintains its own archives, the cost of equipment such as filing cabinets, index cards, etc., must

be determined. To this the cost of fire protection for this equipment and the records must be added. The clerical work of transferring records and changing the index cards must also be included. In some cases the time of one or more employees may be required to maintain the records in good order and to answer phone calls or written requests for information. If the archives are not staffed, the committee should make some arrangement for policing the department, since carelessness on the part of some employee may upset the careful planning which has been applied. When the records cannot be maintained at a point readily available to all departments, the cost of transportation to the archives may become an important factor. In addition, the cost of time used in going to the archives, and in searching for material must be included. Proper evaluation of this cost may show that the most economical method is to staff the archives. This department is merely an extension of the central filing department. Therefore, it appears that some provision for continuous clerical handling would be the most efficient method in an organization of any size.

Use of Photographic Methods

In many business organizations the cost of maintaining records can be greatly reduced by the application of modern photographic methods. There are several devices on the market for rapidly photographing records on a running strip of film. These photographs are greatly reduced in size and some sort of apparatus is required in order to project the record in readable form. Banks are making extensive use of this procedure at the present time. The advantages are the small amount of space required for storage, the reduced cost of filing equipment, the reduced cost of clerical handling, the availability of the records on the spot (which is an off-shoot of the reduced storage space factor) and the permanent binding of groups of records in the order photographed (since the film is developed and retained in rolled form). The original records may be retained until the developed film is ready for reference, so that the temporary absence of the film during its development process is not a factor. Before making a decision with reference to this photographic method, it might be advisable for the committee to have an opinion from the legal department as to the acceptance of such photographs as evidence in a court

of law. The opinion requested should be with regard to the particular records and the nature of the company's business, rather than a general opinion on the subject. It may be their opinion that with certain records, the photographic method would be acceptable, whereas specific legal requirements would preclude its use in connection with other records.

Execution of the Plan

The schedule having been set up in accordance with the above factors, the committee should turn its efforts to the execution of its plans. With regard to the records retained, space must be provided for current requirements and for normal expansion. If the company is in a period of general business expansion, the maintaining of certain records for six years may involve a constant increase in demands for space. Adequate equipment must be provided. Some records must be provided with storage facilities which will permit ready reference, while others may be merely stored for a period of time, little or no reference being likely.

The destruction schedule, when set up and approved, must be put into effect. Provisions must be made as to the time and the method of removing the records from the files or containers. Due thought must be given to the possibility that certain records which have no further value to the organization, might be the cause of considerable trouble or embarrassment if they came into the hands of an unscrupulous competitor. Some provision must be made for the burning or other effective destruction of any such records by making arrangements with a reputable firm; however, it should be possible to sell most of the records as waste paper.

Policing the Execution of the Plan

Having followed the plan to this stage, the committee will have successfully started the task assigned. Provisions must be made for regular frequent meetings to pass on new questions which may arise, to interpret borderline cases, and to frequently review the schedule, as well as all other factors in the plan of procedure. A plan which is not constantly reviewed will start to lose its effectiveness at a surprisingly early date.

The committee must investigate the various steps in the execution of its plan and must provide some means of defi-

nately assuring itself and the executive to whom it is responsible that all factors are in operation, that the details are fully understood by those who have duties to perform, and that the constant excuse of being too busy is not permitted to prevent the taking of action at the required time.

MONEY MATTERS IN THE R.C.A.F.

A Survey of the Accounts Section

By Squadron Leader Harvey L. Good, Trenton, Ontario

Editor's Note: On passing the Final examination in 1936, Harvey L. Good became a member of the Institute of Chartered Accountants of Ontario. He joined the R.C.A.F. in June 1940, and in May 1941 was transferred from St. Thomas to Trenton where the following September he became Squadron Leader and Senior Accountant Officer. His article which was written for *Contact*, the magazine of the R.C.A.F. at Trenton, has been supplied to us for publication in THE CANADIAN CHARTERED ACCOUNTANT through the kind permission of Group Captain F. S. McGill, Commanding Officer at Trenton.

THE Accounts Section, known to most personnel (apart from those on the permanent staff) as the Pay Office, has many functions to perform. Perhaps, because we are all so vitally interested in pay, we overlook its other aspects.

For purposes of enlightenment, we are going to take you on a short tour of this department. In the first place, we'll give you a brief account of the duties of the equipment accounting staff.

A record of all supplies and equipment handled on the station is kept through the medium of Main Stock Ledgers and postings are effected from vouchers which are prepared for every issue or transfer of goods. When you consider that there are at least 25,000 different classes of equipment listed in the R.C.A.F. vocabulary, you have a faint idea of the work this entails.

Flight inventories under the control of unit and section commanders are maintained in this department. Here again vouchers are prepared when equipment is issued to or returned from a flight, and it is these vouchers which form the basis for alterations to the flight inventories.

Functions of Accounting Staff

It must be remembered that in no way is the accounting staff concerned with the handling of equipment, but purely

the recording and disposition of vouchers therefor, and scrutiny of those vouchers to ensure that they are correctly prepared. The recording of vouchers is in itself a considerable task. They are divided into various groups, including receipt, issue, conversion and repayment vouchers, for which registers are kept. These registers follow through the disposition of vouchers from origination or receipt from another unit to the time when action in all respects has finally been completed.

Another function of the equipment accounting staff deals with the passing for payment of invoices relating to the purchase of supplies and services which originate at the station. Local purchases and periodical deliveries under standing contracts for materials assigned to this unit account for approximately 5,000 invoices during a fiscal year. It is the responsibility of this department to ensure that full benefit has been received for all accounts which are recommended for payment and to distribute the expenditure to the proper classification as called for by government coding regulations. Invoices, which are submitted in each case in at least four copies for ultimate distribution to the proper authorities, are certified for payment by the accountant officer after examination in all respects is complete.

Travelling claims for all service personnel on the strength of the station are passed through the account office. Here again each claim must be examined to ensure its accuracy and authority for the claim. Expenditures are coded and after certification by the accountant officer are passed to treasury officials for payment. Claims for uniform allowance for newly appointed officers are also forwarded through this department.

When cheques are received in payment for claims submitted, they must be immediately distributed. Due to the constant movement of personnel from one unit to another, in many cases it becomes necessary to re-mail these cheques to all parts of Canada. This fact, of course, results also in the receipt of numerous cheques at this unit from other R.C.A.F. centres, both for settlement of claims outstanding and balances due for pay and allowances.

Dependant's Allowances

Documentation for the issue of dependants' allowance is another duty of the accounting staff. Each applicant must

be personally interviewed and submit certificates of marriage and birth of his children. Factors regulating entitlement to allowances are numerous and in many instances involved, and the accounting staff must decide on the merits of each case. Assignments of pay as required and allowed by regulations must be brought into effect and recorded on each Officer's and Airman's pay documents. This is necessary in order to ensure that only the proper amount of pay is issued directly to service personnel, since payments for assignments in effect are made directly by the treasury department in Ottawa. Voluntary assignments of pay are made for such items as insurance, war savings certificates, victory bonds, etc. Many also assign pay to relatives, even in cases where not required to do so by regulations. In all cases for the issue of dependants' allowance, it is the accountant officer's duty to examine the forms which are required by the Dependants' Allowance and Assigned Pay branch as completed under his supervision and, after certification by him, forwarded to the department in order that action may be taken to put payment into effect.

Hire of Civilians

The problems of civilian pay on a station as large as Trenton place another responsibility on the accounting department. All casualties affecting the pay of civilian employees—the dates of employment and its termination, absences without pay, reclassifications, etc.—are reported regularly to treasury officials who assemble the facts submitted and issue salary cheques in payment. During the interval between the time the cheques are prepared and distributed to the employees, circumstances often arise which necessitate a partial recovery in order to guard against overpayments. In addition, paylists are prepared at the station for employees under the supervision of the station resident engineer, and the accountant officer is here required to ensure that amounts are properly computed. Such items as "cost of living" bonus, unemployment insurance and national defence tax add considerably to the work involved.

Supervision of the accounting work, preparation of financial statements and quarterly audits of all the non-public funds at Trenton are other phases of work performed by the accountant officers and their staff. At Trenton, the

volume of sales of all messes and canteens is close to half a million dollars per year.

The Pay Department

Finally we come to the operation of the pay department. The average number of R.C.A.F. personnel on strength at this unit runs into thousands, and several thousand are taken on strength and posted to other units during each month. This necessitates forwarding documents, arranging pay parades at odd times for large drafts going out and maintaining a steady stream of payments during each day for individual postings. In addition, payments are made to personnel before they proceed on annual leave. Unfortunately, there are also numerous requests for casual advances of pay, a good many of which are not granted because, in the opinion of the accountant officer, sufficient reason is not given.

Regular pay parades are held at the mid-month and the end of the month. Four officers with twelve clerk accountant assistants are busily engaged for close to two hours. Accuracy is of prime importance, since every cent of shortage that develops must be "put up" by the accountant officers personally. Needless to say, it is very seldom that they find that there is an overage.

In addition to the payment of R.C.A.F. personnel on the strength of the station, Trenton is peculiar in having several hundred R.A.F. men on attachment. Their pay and allowances are forwarded to the accountant officer for disbursement, so that his cash account becomes rather involved at times because of the amounts he has received from the R.A.F. schools and which he has to take into consideration in balancing his cash.

The total cash handled by the accountant officers at Trenton in a month runs into eight figures for regimental pay alone. Payments by cheque are not included in this amount. Other cash accounts for public funds under the control of the accountant officer include the imprest account for the payment of travelling advances, the petty cash account for the payment of sundry small purchases of supplies for station stores, the unemployment insurance account for the purchase of unemployment insurance stamps for civilian employees, the postage account to cover the purchase of stamps by Central Registry and the cash received on the

sale of transportation warrants to personnel on posting who are moving their families.

The matter of effecting recovery from airmen whose accounts are in debit at the time of their discharge from the Air Force also raises, in some cases, rather a nasty problem. Any overpayment on discharge which arises through an error in computing the account becomes the personal responsibility of the accountant officer to collect or "make good" out of his own pocket.

The actual posting and computation of each individual's pay account is made primarily from Daily Routine Orders. This, of course, involves the need for a thorough inspection of orders. All items affecting each person's account, however, are not recorded there, as in the case of repayment vouchers which are charged directly upon receipt of the vouchers. The accounts section also receives daily notification from previous units of matters pertaining to individual pay accounts, action on which must be immediately taken.

No attempt has been made here to give a complete analysis of the operation of the Accounts Section, but rather an outline of the work which it tries to accomplish. Such personal problems as explaining why John Doe received only \$20.60 this pay day when he received \$21.90 last month are matters which we encounter constantly.

GLIMPSES OF CURRENT ACCOUNTING LITERATURE

A Summary Prepared by John Douglas Campbell,
Chartered Accountant

ARTICLES

(1) Bad Debts

George R. Husband in an article "The Bad-Debts Estimate: A Deduction From Gross Sales" published in the April 1942 issue of *Accounting Review* (Chicago) presents the case for exhibiting the bad-debt estimate as a deduction from gross sales.

The case rests primarily upon whether a credit sale and its subsequent collection represent two separate transactions. Although accounting is to some degree influenced

by the legal point of view ("sale is defined in terms of title passing") certain situations may require that the economic or business point of view ("sales must make a contribution to revenue producing") be applied.

The actual cost involved in any bad debt is represented by the cost of sales for the items involved plus the costs of the various services attached to the items of merchandise sold. As these costs have been recorded already on the books prior to setting up the bad debt provision, the additional provision for bad debts merely represents an inflation of costs by the selling price of the merchandise involved and sales by a similar amount. On this ground ("presentation of a more realistic truth") it is suggested that the deduction of the bad debt provision from sales tends to portray more clearly the actual position of the concern in regard to the item of bad debts.

(2) Audit Programs—Monthly

The April 1942 issue of *The New York Certified Public Accountant* carries a paper presented by Max Block on the subject "The Need For and Use of Audit Programs in Monthly Audits."

The conclusion is drawn that "the use of the written program is an essential tool in the performance of a monthly audit and that it is a guide and not a manual All audit steps must be clearly described in a concise manner and extents and options must be set forth distinctly."

The paper deals primarily with the mechanics involved in the preparation of the monthly audit program. Special stress is placed on the necessity for specific instructions although it is realized that "the proper execution of the audit steps, the exercise of good judgment in allocating the available time and in fixing the extents and rotation of steps, and even in departing from the program where necessary, are the distinguishing marks of an able auditor."

(3) Point Rationing

The May 1942 issue of *The Review of Economic Statistics* (Cambridge, Mass.) carries an article "Some Notes on Point Rationing" by E. M. H. Lloyd in which the adaptability of the point rationing system to given sets of circumstances is clearly outlined.

Consumer rationing—distribution according to some criterion of equity or priority other than price—may be divided

into two general types either (a) an equal sharing of one article (e.g., sugar) or (b) equal opportunity to buy any item in a group, i.e., point rationing.

Under the point rationing system each consumer is given a number of points, the aggregate of which must not be greater and should be preferably less than the aggregate point value of all goods available for purchase within a given group. Each commodity within the group is allotted a separate point price, which price is fixed inversely to the pressure of demand and is so regulated as to steer consumption from the relatively scarce commodities within a given group to the relatively plentiful items within the same group. It represents an effort to equate demand to supply at the controlled money prices which have been placed presumably at a point below where supply and demand would be in equilibrium.

The successful operation of the point rationing scheme is dependent upon the establishment of a strict control over the issue of supplies at the source. The application of the scheme to commodities other than where a strict control may be maintained over the supply has been found to be unsatisfactory.

(4) Profit and Loss Statement vs. Balance Sheet

Edward G. Nelson in an article "The Relation Between the Balance Sheet and the Profit-and-Loss Statement" published in the April 1942 issue of *Accounting Review* (Chicago) clearly indicates the complementary nature of the two statements and points out that as a result of such relationship one cannot be classed as more fundamental than the other. "The income account is not more fundamental than the balance sheet. It cannot be so because balance sheet valuations are generally another aspect of income measurements."

Throughout the article Mr. Nelson indicates the close correlation existing between the items of revenue and expenditure and the complementary items appearing on the balance sheet. Specific attention is focused on the items of sales and accounts receivable and depreciation and machinery in illustration of the point in question.

In final reference to the nature of the balance sheet it is pointed out that it contains many elements of profit and

loss, exhibiting future receipts and disbursements which have been represented as revenue and expense of past periods and past receipts and disbursements which will be distributed as revenue and expense of future years.

(5) Credit—Accounting and Auditing Procedures

The April 1942 issue of "The New York Certified Public Accountant" (New York) carries a series of answers to questions presented by the Robert Morris Associates to the Committee on Co-operation with Bankers of the New York State Society of Certified Public Accountants. The questions discussed covered a variety of problems the more significant of which deal with the questions of financial statements, audit reports, war contracts, inventory problems and commitments.

Although the accounting statements presented represent the best means available for summarizing in a comprehensible manner the individual transactions of an organization they cannot hope to reflect all transactions with the degree of exactness and finality necessary to meet the needs of all readers. The published statements are designed rather to present sufficient detail to give an overall picture of the financial position of a concern and its operating results than to give an unfair advantage to adverse interests. Under circumstances where special interests require additional information to that published, it should be supplied on the approval of the management.

The audit report discussion brought the question of the degree of detail to be included to the front. It was pointed out that "if the wording suggested by the American Institute of Accountants is used without change or qualification, it is contemplated that the auditor will be satisfied that his examination was in conformity with procedures and practices outlined in 'Examination of Financial Statements,' a bulletin published by the American Institute of Accountants. As the short form of report goes to the 'ordinary reader' it is so designed as to suit his requirements rather than the specialized requirements of the 'special interests.' If additional information should be required by the special interests (credit grantor) it may be supplied by the auditor on request but only with the consent of his client."

The inventory problem discussion centred around the

fundamental accounting concept involving the measurement of expired costs and the determination of costs applicable to future operations. Special attention was paid to the current discussion of the last-in, first-out method of determining cost in the cost or market principle and its particular significance from a taxation standpoint.

The last-in, first-out method represents an attempt to exclude the effects of inventory price fluctuations from the determination of current earnings. The claim is made that the method comes closer to determining profits on the basis of realization in that profits are measured by matching current sales against current costs. In discussing the prerequisites for the adoption of the last-in, first-out method of measuring cost it was recognized that the method (Lifo) is not indiscriminately pertinent in any or all types of business. "Accounting thought is tending to an approach not of inquiring as to relative advantages or disadvantages of one or another system of inventory costing but rather to the method more peculiarly adapted to the particular industry in order that the resultant profit determination be a logical one for that industry." The significance of a high degree of responsiveness normally between reproductive cost and sales price and a slow inventory turnover are discussed as underlying prerequisites to a concern in applying the "Lifo" method.

(6) Internal Control—Municipal Organization

The report made by the Committee of Procedure for receipts and disbursements of funds of the Municipal Finance Officers Association (1313 East Sixtieth Street, Chicago, Illinois, price 35 cents), sets out in detail the application of a system of internal check of cash receipts and disbursements to a municipal organization.

The report is divided into the two general divisions of receipts and disbursements each of which is subdivided under the subheadings of organization, control and disposition. Although the application of the internal check in question has been specifically applied to the municipal organization it nevertheless presents a concise presentation of principles of internal check applicable to cash receipts and disbursements which might be applied to any type of commercial or industrial organization.

**(7) Security and Exchange Commission and the
Accounting Profession**

Excerpts taken from the seventh annual report of the Securities and Exchange Commission which are reprinted in the June 1942 issue of *The Journal of Accountancy* indicate the general nature of the activities of the Commission in the fields of auditing and accounting.

As the Commission is working with financial statements whose utility is dependent both upon the soundness of the accounting principles followed in their preparation and the quality and independence of the work of the public accountant certifying to them, the prime objectives of the Commission in the field of accounting and auditing have been therefore towards an improvement and clarification of accounting and auditing standards and insistence upon the independence of certifying accountants.

In the field of accounting standards the requirements of the Commission as to certification requiring both positive representations as to the scope and character of the work done and express indication of normal procedures omitted are set out. (Recommended auditing procedures to include physical checking or observation of inventory procedure, circularization of receivables and more incisive analysis of the system of internal check and control.) Although the requirements are limited in application to the statements filed with the Commission, the opinion is expressed by the American Institute of Accountants that "practising accountants may in the course of time consider it advisable to apply the same standards of disclosure in reports for other purposes also."

The question of the maintenance of high standards of independence and professional conduct among certifying accountants is supported by case illustrations where the Commission has ruled that independence did not exist. "The requirement of certification by an independent public accountant is not so much a guarantee against conscious falsification or intentional deception as it is a measure to insure complete objectivity." The nature of the established code of ethics within the accounting profession in the United States is set out, together with an indication of the existent collaboration of the national and state accounting organizations with the Securities and Exchange Commission in cases

where the question of the ethics of certifying accountants are being questioned.

Much of the Commission's work in the field of improving accounting practice under the securities acts has taken place in informal conferences which in most cases lead to the selection from several generally recognized modes of treatment that one which is considered most preferable. Some of the more common of the deficiencies which have been encountered by the Commission were referred to in *THE CANADIAN CHARTERED ACCOUNTANT*, Vol. XL, page 167.

The final excerpts presented indicate the nature of the co-operation between the Commission and professional accounting organizations in the field of statement of principles.

BOOK REVIEW

Manual of Inspection—Office of The Comptroller, City of New York, N.Y., copies available from Comptroller's office at \$1.50.

The procedure of inspection forms one of the most important parts of the internal audit procedure carried on by the Bureau of Audit of the City of New York. "Moreover the Bureau of Audit had to confirm the purchase by actual inspection of materials, supplies and equipment to ascertain whether fair value had been received . . . the Division of Inspection is charged with the responsibility of certifying to the Bureau of Audit in certain cases that charges for work done or material or supplies furnished are just and reasonable."

To facilitate the operation of inspection by the Inspection Division of the Bureau definite standard specifications had to be established for the various types of merchandise purchased. The "Manual of Inspection" is drafted on the basis of these standard specifications and contains a detailed description of the work of the inspection department supported by illustrative forms and actual specifications of the various commodities which the City of New York purchases during the course of the year. Specific instructions are included for each commodity in regard to the manner in which the commodity is to be inspected as well as setting out the required specifications.

JUDGMENT RESPECTING THE INCOME WAR TAX ACT

The Walkerville Brewery Case

THE judgment in this case was rendered on 24th July 1942 by Mr. Justice Maclean, President of the Exchequer Court of Canada, and it affirmed the assessment levied by the Minister of National Revenue against the appellant—Walkerville Brewery Limited.

The appellant company was incorporated under the laws of the Dominion of Canada and began business on 1st January 1931, then taking over the assets of another company of the same name which had been incorporated under the laws of the Province of Ontario. The consideration paid for the transfer of the assets from the old company to the appellant company was in the form of an issuance of preferred and common shares of the latter company. The fixed assets of the vendor company were valued for the purposes of this transaction at figures established by an appraisal made in 1928 by an appraisal company. These figures were greatly in excess of the net value at which these assets had been carried in the books of the vendor company, approximately in the sum of \$328,000, whereas the appraisal value was \$1,096,000. The shareholders of the appellant company were the same as the vendor company, and no new capital was introduced at the time of the transfer of the assets from the vendor to the appellant company.

For the year 1936 the appellant claimed depreciation in the sum of \$29,528.03 while the amount allowed by the Commissioner of Income Tax was \$13,864.30, the amount of the disallowance being \$15,663.73. For the year 1937 the appellant claimed depreciation in the sum of \$30,952.09 while the amount allowed by the Commissioner of Income Tax was \$17,175.08, the amount of the disallowance being \$13,777.01. The appeal was from the amounts disallowed for depreciation during the two taxation periods in question, which disallowance the Minister affirmed.

The depreciation allowed by the Income Tax Division of the Department of National Revenue throughout the years in question, and in earlier years, was based on the value given to the fixed assets by the vendor company and which had been applied by the appellant company when it began business in 1931. In a business journal of the appellant company there was published a statement showing the or-

iginal cost of the fixed assets to the vendor company, and this was taken to be the value of the assets to the appellant company for depreciation purposes by the Minister. The original cost to the vendor company appeared also on the books of the vendor company.

For the first two years in its business career, 1931 and 1932, the appellant company claimed depreciation on the basis of the original cost of the fixed assets to the vendor company and the taxing authorities agreed to the claim for depreciation made for those two years. In both of these years the appellant operated at a profit and paid income tax without objection being made as to the amount allowed for depreciation and the method of determining the same.

In the years 1933, 1934 and 1935, the appellant in its tax returns claimed depreciation based on the appreciated asset values, that is, the values found by the appraisal company in 1928. But as the appellant operated at a loss in those three years the matter of depreciation was not a material factor, and the issue did not arise in concrete form until the years 1936 and 1937.

Judgment

In delivering judgment Mr. Justice Maclean stated: "Section 5, ss. 1(a) of the *Income War Tax Act* states that 'income' as defined in the Act shall for the purposes of the Act be subject to certain exemptions and deductions and one was 'such reasonable amount as the Minister, in his discretion, may allow for depreciation.' The facts here seem to indicate that the Minister based his valuation of fixed assets for the ascertainment of 'depreciation' largely upon the cost of the same to the vendor company from which the appellant company acquired the same, and which basis was adopted by the appellant itself for two years. Due allowance was made for depreciation of any new assets in the meanwhile acquired by the appellant company. It seems to me that the Minister, in the exercise of his discretion, in fixing the 'reasonable amount' that should be allowed for depreciation adopted a method or basis that is hardly open to attack, and at least I was shown no authority to the contrary. I have not been satisfied that the Minister adopted any wrong principle in determining the amount that should be allowed for depreciation, or that the amount allowed was not a reasonable and proper one. I do not see how it can be

alleged that the Minister acted against proper legal principles in fixing the amount he allowed for the years 1936 and 1937, for depreciation, or that he exercised his discretion improperly or in any way against proper legal principles. Mr. Springsteen referred to and discussed at length the *Pioneer Laundry* case, 1940 A.C. 127, but in that case no allowance at all was made for depreciation and the grounds upon which the disallowance of depreciation was arrived at were held to be against proper legal principles. It seems to me that the decision in that case is not applicable to the facts of this case and really affords no assistance in the question here to be decided."

NEW LEGISLATION RESPECTING TAXATION DOMINION AND PROVINCIAL

Editor's Note—In the issues of May and June 1942 we published summaries of the 1942 amendments of tax acts of the nine Provinces. We publish below the complete text of the amendments of *The Excess Profits Tax Act, 1940* and of the *Income War Tax Act* passed by the Dominion parliament which closed 1st August last.

A set of the amendments of these two Dominion Acts (in form for members' tax binders) is available from the office of the Secretary-Treasurer of The Dominion Association of Chartered Accountants, 10 Adelaide Street East, Toronto, upon the payment of thirty cents. (Cash must accompany order; cheques drawn on bank branches outside Toronto must have ten cents added for collection charges.)

(a) 1942 Amendments of The Excess Profits Tax Act, 1940

6 George VI, 1942

CHAPTER 26

An Act to Amend The Excess Profits Tax Act, 1940

[Assented to 1st August 1942]

HIS Majesty, by and with the advice and consent of the Senate and House of Commons of Canada, enacts as follows:—

1940, c. 32;
1940-41, c. 15.

1. (1) Paragraph (f) of subsection one of section two of *The Excess Profits Tax Act, 1940*, chapter thirty-two of the statutes of 1940, as enacted by section one of chapter fifteen of the statutes of 1940-41, is amended by striking out the words "this Act" in the ninth line thereof and substituting therefor the words "the said tax."

"Profits"
in the case
of a cor-
poration.

(2) Paragraph (i) of subsection one of section two of the said Act, as enacted by section three of chapter fifteen of the statutes of 1940-41, is repealed and the following substituted therefor:—

THE CANADIAN CHARTERED ACCOUNTANT

"standard profits."

"(i) 'standard profits' means the average yearly profits of a taxpayer in the standard period in carrying on what was in the opinion of the Minister the same class of business as the business of the taxpayer in the year of taxation or the standard profits ascertained in accordance with section five of this Act:

Proviso.

Provided that standard profits shall not include for the purposes of this Act property in any form received by a taxpayer deemed to be the payment of a dividend under section nineteen of the *Income War Tax Act*; and

R.S., c. 97.

Proviso.

Provided further that for the purpose of this section profits shall be deemed to have accrued on an equal daily basis throughout any fiscal period or portion thereof which is in question; and

Proviso.

Provided further that losses incurred by the taxpayer during the standard period shall not be deducted from the profits in the standard period but the years of losses shall nevertheless be counted in determining the average yearly profits during the said standard period; and

Proviso.

Provided further that a taxpayer's standard profits shall not be deemed to be less than five thousand dollars before any adjustment is made in accordance with the provisions of this Act."

2. Section three of the said Act is repealed and the following substituted therefor:—

"3. (1) In addition to any other tax or duty payable under any other Act and as herein provided, there shall be assessed, levied and paid

Persons liable to tax.

(a) a tax in accordance with the rate set out in the Third Part of the Second Schedule to this Act, upon the profits during the taxation period; and

(b) a tax in accordance with the rates set out in the First Part of the Second Schedule or in the Second Part of the Second Schedule to this Act upon the profits or the excess profits respectively during the taxation period, whichever of such taxes is the greater in amount,

of every person residing or ordinarily resident in Canada or who is carrying on business in Canada:

Proviso.

Provided that in the case of all persons other than corporations the tax as provided in the Third Part of the Second Schedule to this Act shall not apply.

Tax not to operate to reduce profits.

(2) The tax exigible under this section in accordance with the rates set out in the First Part of the Second Schedule to this Act shall in no case operate to reduce the profits of a taxpayer below the amount of five thousand dollars before providing for any payments to proprietors, partners or shareholders by way of salary, interest or otherwise."

3. Section five of the said Act, as enacted by section six of chapter fifteen of the statutes of 1940-41, is repealed and the following sections substituted therefor:—

Ascertainment of profits by Board of Referees.

"5. (1) If a taxpayer is convinced that his standard profits were so low that it would not be just to determine his liability to tax under this Act by reference thereto because the business is either of a class which during the standard period was depressed or was for some reason peculiar to itself abnormally depressed during the standard period

NEW LEGISLATION RESPECTING TAXATION

when compared with other businesses of the same class he may, subject as hereinafter provided, compute his standard profits at such greater amount as he thinks just, but not exceeding an amount equal to interest at ten per centum per annum on the amount of capital employed in the business at the commencement of the last year or fiscal period of the taxpayer in the standard period computed in accordance with the First Schedule to this Act:

Depressed businesses.

Provided that if the Minister is not satisfied that the business of the taxpayer was depressed or that the standard profits as computed by the taxpayer are fair and reasonable, he may direct that the standard profits be ascertained by the Board of Referees and the Board shall thereupon, in its sole discretion, ascertain the standard profits at such an amount as the Board thinks just, being, however, an amount equal to the average yearly profits of the taxpayer during the standard period or to interest at the rate of not less than five nor more than ten per centum per annum on the amount of capital employed at the commencement of the last year or fiscal period of the taxpayer in the standard period as computed by the Board in its sole discretion in accordance with the First Schedule to this Act, or the Minister shall assess the taxpayer in accordance with the provisions of this Act other than as provided in this subsection.

Proviso.

(2) If on the application of a taxpayer the Minister is satisfied that the taxpayer was not carrying on business during the standard period or that the profits of the standard period were so low that it would not be just to determine the liability of the taxpayer under this Act by reference thereto because the actual date of commencement of business by the taxpayer or the date of commencement fixed by the Minister pursuant to paragraph (h) of subsection one of section two of this Act was subsequent to the thirty-first day of December, one thousand nine hundred and thirty-seven but before the first day of January, one thousand nine hundred and thirty-nine, he shall direct that the standard profits be ascertained by the Board, or (whether or not there has been an application by the taxpayer) in the case of any taxpayer who has not commenced business before the second day of January, one thousand nine hundred and thirty-nine, the Minister shall direct that the standard profits be ascertained by the Board and the Board in any such case shall in its sole discretion thereupon ascertain the standard profits at such an amount as the Board thinks just, being an amount equal to a return on the capital employed by the taxpayer at the commencement of the first year or fiscal period in respect of which he is subject to taxation under this Act at the rate earned by taxpayers during the standard period in similar circumstances engaged in the same or an analogous class of business, the capital of the taxpayer to be computed by the Board of Referees in its sole discretion in accordance with the First Schedule to this Act.

Standard profits for new business.

(3) If on the application of a taxpayer the Minister is satisfied that the business either was depressed during the standard period or was not in operation prior to the first day of January, one thousand nine hundred and thirty-eight, and the Minister on the advice of the Board of Referees is satisfied that because,

Standard profits for cases where a capital standard is inapplicable.

(a) the business is of such a nature that capital is not an important factor in the earning of profits, or

(b) the capital has become abnormally impaired or due to other extraordinary circumstances is abnormally low

standard profits ascertained by reference to capital employed would result in the imposition of excessive taxation amounting to unjustifiable

THE CANADIAN CHARTERED ACCOUNTANT

hardship or extreme discrimination or would jeopardize the continuation of the business of the taxpayer, the Minister shall direct that the standard profits be ascertained by the Board of Referees and the Board shall in its sole discretion thereupon ascertain the standard profits on such basis as the Board thinks just having regard to the standard profits of taxpayers in similar circumstances engaged in the same or an analogous class of business.

Decisions of Board not final.

(4) Notwithstanding anything contained in this section the decisions of the Board given under subsections one, two and three of this section shall not be operative until approved by the Minister whereupon the said decisions shall be final and conclusive:

Proviso.

Provided that if a decision is not approved by the Minister it shall be submitted to the Treasury Board who shall thereupon determine the standard profits and the decision of the Treasury Board shall be final and conclusive.

New gold mines and oil wells.

"5A. In the case of taxpayers engaged in the operation of gold mines or oil wells which have come into production after January first, one thousand nine hundred and thirty-eight, the amount of standard profits shall be ascertained on the basis of a presumed volume of production during the standard period equal to the volume of production of the taxpayer in the taxation year and a presumed selling price for the product during the standard period equal to the average selling price of the said product during the standard period."

Proportion of income tax and tax under 3rd Part of 2nd Schedule.

4. Paragraph (a) of subsection one of section six of the said Act is repealed and the following substituted therefor:

"(a) such proportion of the income tax payable under the *Income War Tax Act* (or payable under the said Act prior to the application of sections eight, eighty-nine or ninety thereof) and such proportion of the tax payable under the Third Part of the Second Schedule to this Act, for the same taxation period as the excess profits taxable under the Second Part of the Second Schedule to this Act bears to the total profits of the taxpayer;"

Depreciation and depletion—Interest—Donations.

5. Paragraph (a) of subsection two of section six of the said Act is repealed and the following substituted therefor:—

"(a) the amounts allowed as deductions in paragraphs (a), (b) and (j) of subsection one of section five of the *Income War Tax Act*, and such amount for depreciation as the Minister in his discretion may allow under paragraph (n) of subsection one of section six of the said Act;"

6. Subsection two of section six of the said Act, as amended by sections seven and eight of chapter fifteen of the statutes of 1940-41, is further amended by adding thereto the following paragraph:—

Revenue losses.

"(d) losses of the taxpayer in the immediately preceding year, as ascertained under the *Income War Tax Act*."

7. Paragraph (b), paragraph (c) as enacted by section nine of chapter fifteen of the statutes of 1940-41, and paragraph (d) of section seven of the said Act are repealed and the following substituted therefor:—

Professional activities.

"(b) The profits of a profession carried on by an individual or by individuals in partnership if the profits of the profession are dependent wholly or mainly upon his or their personal qualifica-

NEW LEGISLATION RESPECTING TAXATION

tions and if in the opinion of the Minister little or no capital is employed: Provided that this exemption shall not extend to the profits of a commission agent or person any part of whose business consists in the making of contracts on behalf of others or the giving to other persons of advice of a commercial nature in connection with the making of contracts unless the Minister is satisfied that such agent is virtually in the position of an employee of one employer in which case this exemption shall apply and in any case the decision of the Minister shall be final and conclusive:

Proviso.

"(c) The profits of taxpayers other than corporations or joint stock companies, if such profits do not in the taxation period exceed five thousand dollars before providing for any payment therefrom to proprietors or partners by way of salary, interest or otherwise;

Small businesses.

"(d) The profits of a corporation or joint stock company which is in the taxation period a personal corporation within the meaning of paragraph (i) of section two of the *Income War Tax Act*."

Personal corporations.

8. Section seven of the said Act, as amended by sections nine and ten of chapter fifteen of the statutes of 1940-41, is further amended by adding thereto the following paragraph:—

Profits not liable to tax.

"(g) The profits of any corporation or joint stock company derived from the operation of any base metal or strategic mineral mine which comes into production in the three calendar years commencing the first day of January, one thousand nine hundred and forty-three, but this exemption shall extend only to the income of the first three fiscal periods of twelve months each commencing on or after the date of such mine coming into production. The Minister, having regard to the production of ore in reasonable commercial quantities, shall determine which mines, whether new or old, qualify under this paragraph. The Minister shall issue a certificate stating the date upon which any mine is deemed to have come into production and establish such fiscal periods of twelve months each, during which the income derived from any such mine shall be exempt hereunder.

Base metal and strategic mineral mines.

The Minister may make any regulations deemed necessary for carrying this paragraph (g) into effect."

9. The said Act is further amended by adding the following section immediately after section seven thereof:—

"**7A.** The following profits shall not be liable to taxation under section three of this Act in accordance with the rates set out in the First and Second Parts of the Second Schedule to this Act:—

Small corporation profits.

The profits of a corporation or joint stock company which, in the taxation year, do not exceed the sum of five thousand dollars, or, where the taxation year of any corporation or joint stock company is less than twelve months, do not exceed the proportion of five thousand dollars which the number of days in the taxation year of such corporation or joint stock company bears to three hundred and sixty-five days, before providing for any payments to shareholders by way of salary, interest, dividends or otherwise."

10. The said Act is further amended by adding thereto the following section immediately after section seventeen:—

"**18.** (1) There shall be refunded to the taxpayer an amount equal to twenty per centum of the profits above the point at which the

Refundable portion.

R.S., c. 97.

Payments of
refundable
portion.

Date of
cessation of
hostilities.

Rates of tax
on profits.

Rates of tax
on excess
profits.

Coming into
force.

tax calculated under the First Part of the Second Schedule is equal to the tax calculated under the Second Part of the Second Schedule if such profits have been paid by way of taxes under the *Income War Tax Act* and this Act to the Receiver General of Canada.

(2) The refundable portion shall be repaid to the taxpayer or to his legal representative after the cessation of hostilities between Canada and Germany, Italy and Japan, as follows:

- (a) as to any refundable portion referable to the profits of fiscal periods ending in the year one thousand nine hundred and forty-two, during the second fiscal period of the Government of Canada commencing after cessation of the said hostilities;
- (b) as to any refundable portion referable to the profits of fiscal periods ending in the year one thousand nine hundred and forty-three, during the third fiscal period of the Government of Canada commencing after cessation of the said hostilities; and so on for successive fiscal periods;

or notwithstanding the provisions of paragraphs (a) and (b) hereof, at such earlier times and in such instalments as the Governor in Council may determine.

(3) The date of cessation of hostilities shall be that date proclaimed by the Governor in Council that a state of war no longer exists, or such other date as he may determine for the purposes of refunds hereunder."

11. The Second Schedule to this Act, as amended by section seventeen of chapter fifteen of the statutes of 1940-41, is repealed and the following substituted therefor:—

"SECOND SCHEDULE

FIRST PART—

Ten per centum of the profits of corporations and joint stock companies and fifteen per centum of the profits of all persons other than corporations, before deduction therefrom of any tax paid thereon under the *Income War Tax Act*.

SECOND PART—

One hundred per centum of the excess profits.

THIRD PART—

Twelve per centum of profits of corporations and joint stock companies, before deduction therefrom of any tax paid thereon under the *Income War Tax Act*."

12. (1) Sections one, three, five and paragraphs (b) and (d) of section seven of this Act shall be deemed to have come into force on and after the date of the commencement of *The Excess Profits Tax Act, 1940*.

(2) Sections two and four, paragraph (c) of section seven, sections nine, ten, and eleven of this Act shall be deemed to have come into force on and after the first day of July, one thousand nine hundred and forty-two and shall be applicable to the profits of the taxation year one thousand nine hundred and forty-two and of fiscal periods ending therein subsequent to June thirtieth, and of subsequent years and fiscal periods, provided however that if any fiscal period ends between June thirtieth one thousand nine hundred and forty-two and July first one thousand nine hundred and forty-three, the provisions of the said sections shall apply to only that portion of the profits which the number of days of such fiscal period since June thirtieth one

thousand nine hundred and forty-two bears to the total number of days in such fiscal period, and the provisions of the said Act prior to the enactment of the said sections shall apply to that portion of the profits of the said fiscal period which the number of days of such fiscal period occurring before July first one thousand nine hundred and forty-two bears to the total number of days of such fiscal period.

(3) Section six of this Act shall come into force on and after the first day of January, one thousand nine hundred and forty-three, and shall apply to the year one thousand nine hundred and forty-three, and fiscal periods ending therein.

(b) Income War Tax Act Amendments

6 George VI, 1942

CHAPTER 28

An Act to Amend the Income War Tax Act

[assented to 1st August 1942]

HIS MAJESTY, by and with the advice and consent of the Senate and House of Commons of Canada, enacts as follows:—

1. Paragraphs A and AA of the First Schedule to the *Income War Tax Act*, chapter ninety-seven of the Revised Statutes of Canada, 1927, as enacted by sections one and two of chapter eighteen of the statutes of 1940-41, are repealed and the following substituted therefor:—

"A. RULES FOR COMPUTATION OF INCOME TAX UNDER SUBSECTION ONE OF SECTION NINE.

Section 1. NORMAL TAX.

Rule 1.—A normal tax equal to seven per centum of the income shall be paid by every person whose income during the taxation year exceeded \$1,200 and who was during that year:

- (a) a married person, if his spouse was resident in any part of His Majesty's dominions or in a country contiguous to Canada, or, residing elsewhere, was a subject or citizen of a country associated or allied with Canada in the conduct of the war which commenced in September, nineteen hundred and thirty-nine, and was prevented by reason of such war, or prohibited by law, from entering or landing in Canada; or
- (b) a widow or widower with a son or daughter wholly dependent upon such person for support, if such son or daughter was, during the taxation year,
 - (i) under eighteen years of age; or
 - (ii) eighteen years of age or over and dependent by reason of mental or physical infirmity; or

R.S., c. 97;
1928, cc. 12, 30;
1930, c. 24;
1931, c. 35;
1932, cc. 43, 44;
1932-33, cc. 14,
15, 41;
1934, cc. 19,
55;
1935, cc. 22,
40;
1936, cc. 6, 38;
1938, c. 48;
1939 (1st
Sess.), c. 46;
1939 (2nd
Sess.), c. 6;
1940, c. 34;
1940-41, c. 18.

Married
person and
persons
given
equivalent
status.

(iii) under twenty-one years of age and a student at a secondary school, university or other educational institution and resident in any part of His Majesty's dominions or in a country contiguous to Canada, or, residing elsewhere, was a subject or citizen of a country associated or allied with Canada in the conduct of the war which commenced in September, nineteen hundred and thirty-nine, and was prevented by reason of such war, or prohibited by law, from entering or landing in Canada; or

(c) an unmarried person who maintained a self-contained domestic establishment and actually supported therein a person wholly dependent upon him and connected with him by blood relationship, marriage or adoption; or

(d) an unmarried minister or clergyman in charge of a diocese, parish or congregation who maintained a self-contained domestic establishment and employed therein on full-time a housekeeper or servant.

Incomes of husband and wife.

Rule 2.—If, during any taxation year, a husband and his wife each had a separate income in excess of \$660, each shall be taxed under Rule three of this section, provided, however, that a husband shall not lose his right to be taxed under Rule one of this section by reason of his wife being employed and receiving any earned income.

Other persons.

Rule 3.—Every person not liable to taxation under Rule one or Rule two of this section shall pay a normal tax equal to—

seven per centum of his income if his income during the taxation year exceeded \$660 but did not exceed \$1,800;

eight per centum of his income if his income during the taxation year exceeded \$1,800 but did not exceed \$3,000;

nine per centum of his income if his income during the taxation year exceeded \$3,000.

Estates.

Rule 4.—Notwithstanding anything in this section, the normal tax to be paid upon income taxable under subsections two and four of section eleven of this Act shall be equal to nine per centum of such income.

Tax credit for dependents.

Rule 5.—A taxpayer may deduct from the normal tax otherwise payable by him in any year under this section \$28 for each person who was during that year wholly dependent upon such taxpayer and was

(a) his child, grandchild, brother or sister and was

(i) under eighteen years of age; or

(ii) eighteen years of age or over and dependent by reason of mental or physical infirmity; or

(iii) under twenty-one years of age and a student at a secondary school, university or other educational institution; or

(b) his parent or grandparent and dependent by reason of mental or physical infirmity;

NEW LEGISLATION RESPECTING TAXATION

and resident in any part of His Majesty's dominions or in a country contiguous to Canada, or residing elsewhere, was a subject or citizen of a country associated or allied with Canada in the conduct of the war which commenced in September, one thousand nine hundred and thirty-nine, and was prevented by reason of such war, or prohibited by law, from entering or landing in Canada; or

(c) a child maintained by the taxpayer in Canada under a co-operative scheme sponsored by the governments of the United Kingdom and of Canada or any of the provinces of Canada for children brought from the United Kingdom under a government plan, and was

(i) under eighteen years of age; or

(ii) under twenty-one years of age and a student at a secondary school, university or other educational institution;

except one such dependent by reason of whom such person is taxable under Rule one of this section.

Section 2. GRADUATED TAX.

Rule 1.—For the purposes of this section, the income of every person, except trustees or other like persons acting in a fiduciary capacity, shall be subject to a deduction of \$660.

Graduated
tax.
\$660 exemp-
tion.

Rule 2.—In addition to the normal tax for which provision is made by section one of this paragraph a graduated tax shall be paid by every person as follows:

Rates.

On the first \$500 of income or any portion thereof, 30 per centum; or
\$150 upon the said income of \$500; and 33 per centum upon the amount by which the income exceeds the said \$500 and does not exceed \$1,000; or
\$315 upon the said income of \$1,000; and 37 per centum upon the amount by which the income exceeds the said \$1,000 and does not exceed \$2,000; or
\$685 upon the said income of \$2,000; and 41 per centum upon the amount by which the income exceeds the said \$2,000 and does not exceed \$3,500; or
\$1,300 upon the said income of \$3,500; and 45 per centum upon the amount by which the income exceeds the said \$3,500 and does not exceed \$5,000; or
\$1,975 upon the said income of \$5,000; and 50 per centum upon the amount by which the income exceeds the said \$5,000 and does not exceed \$8,000; or
\$3,475 upon the said income of \$8,000; and 55 per centum upon the amount by which the income exceeds the said \$8,000 and does not exceed \$13,000; or
\$6,225 upon the said income of \$13,000; and 60 per centum upon the amount by which the income exceeds the said \$13,000 and does not exceed \$20,000; or
\$10,425 upon the said income of \$20,000; and 65 per centum upon the amount by which the income exceeds the said \$20,000 and does not exceed \$30,000; or

THE CANADIAN CHARTERED ACCOUNTANT

\$16,925 upon the said income of \$30,000; and 70 per centum upon the amount by which the income exceeds the said \$30,000 and does not exceed \$50,000; or

\$30,925 upon the said income of \$50,000; and 75 per centum upon the amount by which the income exceeds the said \$50,000 and does not exceed \$70,000; or

\$45,925 upon the said income of \$70,000; and 80 per centum upon the amount by which the income exceeds the said \$70,000 and does not exceed \$100,000; or

\$69,925 upon the said income of \$100,000; and 85 per centum upon the amount by which the income exceeds the said \$100,000.

Tax credit
for married
persons and
those
receiving
equivalent
status.

Rule 3.—A taxpayer may deduct \$150 from the graduated tax otherwise payable by him in any year under this section if, during the taxation year, such taxpayer was—

- (a) a married person if his spouse was resident in any part of His Majesty's dominions or in a country contiguous to Canada, or, residing elsewhere, was a subject or citizen of a country associated or allied with Canada in the conduct of the war which commenced in September, nineteen hundred and thirty-nine, and was prevented by reason of such war, or prohibited by law, from entering or landing in Canada; or
- (b) a widow or widower with a son or daughter wholly dependent upon such person for support, if such son or daughter was, during the taxation year,
 - (i) under eighteen years of age; or
 - (ii) eighteen years of age or over and dependent by reason of mental or physical infirmity; or
 - (iii) under twenty-one years of age and a student at a secondary school, university or other educational institution; and resident in any part of His Majesty's dominions, or in a country contiguous to Canada, or, residing elsewhere, was a subject or citizen of a country associated or allied with Canada in the conduct of the war which commenced in September, nineteen hundred and thirty-nine, and was prevented by reason of such war, or prohibited by law, from entering or landing in Canada; or
- (c) an unmarried person who maintained a self-contained domestic establishment and actually supported therein a person wholly dependent upon him and connected with him by blood relationship, marriage or adoption; or
- (d) an unmarried minister or clergyman in charge of a diocese, parish or congregation, who maintained a self-contained domestic establishment and employed therein on full-time, a housekeeper or servant.

Tax credit
for depend-
ents.

Rule 4.—A taxpayer may deduct \$80 from the graduated tax otherwise payable by him in any year under this section, for each person who was, during the taxation year, wholly dependent upon such taxpayer and was—

- (a) his child or grandchild and was
 - (i) under eighteen years of age; or

NEW LEGISLATION RESPECTING TAXATION

- (ii) eighteen years of age or over and dependent by reason of mental or physical infirmity; or
- (iii) under twenty-one years of age and a student at a secondary school, university or other educational institution; and was resident in any part of His Majesty's dominions or in a country contiguous to Canada, or, residing elsewhere, was a subject or citizen of a country associated or allied with Canada in the conduct of the war which commenced in September, nineteen hundred and thirty-nine, and was prevented by reason of such war, or prohibited by law, from entering or landing in Canada; or
- (b) a child maintained by the taxpayer in Canada under a co-operative scheme sponsored by the governments of the United Kingdom and of Canada or any of the provinces of Canada for children brought from the United Kingdom under a government plan, and was
 - (i) under eighteen years of age; or
 - (ii) under twenty-one years of age and a student at a secondary school, university or other educational institution;

except one such dependent by reason of whom such person is entitled to make a deduction under Rule three of this section.

Rule 5.—A taxpayer may deduct from the graduated tax otherwise payable by him in any year under this section, twenty per centum of any amount not exceeding \$400 expended by him during the taxation year for the support of any person who was, during the taxation year, dependent upon such taxpayer for support and was

Tax credit
for depend-
ents.

- (a) his parent or grandparent and dependent by reason of mental or physical infirmity; or
- (b) his brother or sister
 - (i) under eighteen years of age, or
 - (ii) eighteen years of age or over and dependent by reason of mental or physical infirmity, or
 - (iii) under twenty-one years of age and a student at a secondary school, university or other educational institution;

and was resident in any part of His Majesty's dominions or in a country contiguous to Canada, or, residing elsewhere, was a subject or citizen of a country associated or allied with Canada in the conduct of the war which commenced in September, one thousand nine hundred and thirty-nine and was prevented by reason of such war, or prohibited by law, from entering or landing in Canada.

Rule 6.—If, during any taxation year, a husband and his wife each had a separate income in excess of \$660 before making the deduction for which provision is made in Rule one of this section, neither of them shall be entitled to the deduction from graduated tax for which provision is made in Rule three of this section, provided, however, that notwithstanding the foregoing a husband shall not lose his right to the deduction provided in Rule three of this section by reason of his wife being employed and receiving any earned income but his wife shall for the purposes of this section be treated as an unmarried person.

Incomes of
husband and
wife.

THE CANADIAN CHARTERED ACCOUNTANT

Exemption
for depend-
ent children:
who may
take.

Rule 7.—The deduction in respect of any dependent child, for which provision is made in Rule four of this section may, in any year, be made from the tax payable by such of his parents as may be determined by agreement between them, but if there is no such agreement, such deduction shall be made from the father's tax unless the Minister otherwise determines.

Tax credit
for non-
residents.

Rule 8.—No deduction shall be made under Rule three of this section from the tax of any non-resident person described by paragraphs (c), (d) or (e) of subsection one of section nine of this Act, or referred to in subsection seven of section twenty-seven of this Act unless the country in which such non-resident person resides allows a similar advantage to residents of Canada subject to tax in such country under similar circumstances.

General.

Section 3. GENERAL.

Basic
income.

Rule 1.—The taxes payable in accordance with the rules set out in sections one and two of paragraph A of this Schedule shall not, in the aggregate, exceed in any taxation year

(i) in the case of any person liable to taxation under Rule one of section one of this paragraph, the amount by which the taxpayer's income exceeds \$1,200; and

(ii) in the case of any other person, except persons liable to pay tax under Rule four of section one of this paragraph, the amount by which the taxpayer's income exceeds \$660.

Commis-
sioned
officers:
Basic
income.

Rule 2.—The taxes payable by any commissioned officer in the Canadian naval, military or air forces in accordance with the rules set out in sections one and two of paragraph A of the First Schedule to this Act shall not in the aggregate exceed in any taxation year the amount by which the aggregate of such officer's income and the amount refundable to him under section ninety-three of this Act exceeds

(a) in the case of any such officer in respect of whom no dependents' allowance is paid, sixteen hundred dollars; and

(b) in the case of any other such officer, the aggregate of sixteen hundred dollars and the dependents' allowances which would be payable to his dependents if he held the highest rank of warrant or non-commissioned officer in the service to which he belongs but not including any allowance for more than two children: Provided that the aforesaid amount of one thousand six hundred dollars shall not apply in respect of female commissioned officers, and that the governor in council may by order fix an amount to apply in respect of such female officers, having regard to differences in pay between male and female warrant or non-commissioned officers.

AA. RATE OF TAX APPLICABLE TO ALL PERSONS OTHER THAN CORPORATIONS AND JOINT STOCK COMPANIES, IN RESPECT OF 'INVESTMENT INCOME' AS PROVIDED FOR IN THIS ACT—

Surtax.

On investment income in excess of \$1500—four per centum."

2. The proviso to paragraph (i) of section two of the said Act, as enacted by section six of chapter thirty-four of the statutes of 1940, is repealed and the following substituted therefor:—

Proviso.

"Provided that this paragraph shall not extend to a corporation or joint stock company which otherwise qualifies under this paragraph, but which in the opinion of the Minister carries on an active financial, commercial or industrial business, and the decision of the Minister on this question shall be final and conclusive."

NEW LEGISLATION RESPECTING TAXATION

3. (1) Paragraph (c) of subsection one of section three of the said Act, as enacted by section five of chapter eighteen of the statutes of 1940-41, is repealed and the following substituted therefor:—

“(c) any payment out of any superannuation or pension fund or plan: provided, however, that in the case of a lump sum payment out of any such fund or plan which is paid upon the death, withdrawal or retirement from employment of any employee or former employee in full satisfaction of all his rights in any such fund or plan, one-third only of such lump sum payment shall be deemed to be income; and”

Superannuation or pension fund payments.

(2) The said section three is further amended by adding thereto the following paragraph:—

“(h) any amount received pursuant to a decree, order or judgment made by a competent tribunal in any action or proceeding for divorce or judicial separation or pursuant to a separation agreement as alimony or other allowance for the maintenance of the recipient thereof and the children of the marriage if any, if such recipient is living apart from the spouse or former spouse required to make such payment.”

Alimony.

(3) The said section three is further amended by adding the following subsections thereto:—

“(2) Where under any existing or future contract or arrangement for the payment of money, the Minister is of opinion that

- (a) payments of principal money and interest are blended, or
- (b) payment is made pursuant to a plan which involves an allowance of interest,

When portion of principal payments deemed to be interest.

whether or not there is any provision for payment of interest at a nominal rate or at all, the Minister shall have the power to determine what part of any such payment is interest and the part so determined to be interest shall be deemed to be income for the purposes of this Act.

“(3) Where any person acts in the capacity of trustee in the case where an oil or gas well is operated under an arrangement whereby any person other than the operator has an interest in the proceeds of the sale of the products thereof, such proceeds shall nevertheless be deemed, for the purposes of this Act, to be received by the trustee on his own behalf, and he shall be taxable in respect thereof at the rates prescribed for corporations in paragraph C of the First Schedule to this Act and any taxes paid by the trustee under this Act or *The Excess Profits Tax Act, 1940*, may be charged by the trustee ratably to those persons having such interest in such proceeds and deducted from the amounts due them from him.”

Oil or gas royalty company production deemed income of a company.

4. (1) Paragraphs (b) and (c) of section four of the said Act are repealed and the following substituted therefor:

“(b) The income of any officer, official or employee of the government of any country other than Canada, whose duties require him to reside in Canada

Representatives of other countries.

- (1) if and to the extent that such country grants a similar privilege to officers, officials and employees of the government of Canada; and

THE CANADIAN CHARTERED ACCOUNTANT

(ii) if he is not engaged in any business or calling in Canada other than that required by the duties pertaining to his official position and

(iii) if he is a national or citizen of such country."

(2) Section four of the said Act is further amended by adding thereto the following paragraphs:

Pensions.
R.S., c. 157.

"(1) (i) Pensions granted or payable under the provisions of the *Pension Act*, or other payments in the nature of pensions which were being administered on the thirty-first day of July, one thousand nine hundred and forty-two by the Canadian Pension Commission as directed by the Governor in Council, under section six of the *Pension Act*;

Proviso.

(ii) Pensions granted or payable on account of disability or death arising out of war service by the government of any country which was an ally of His Majesty at the time of such war service; Provided, and to the extent that, such country grants a similar exemption in respect of such pensions payable by the government of Canada."

Workmen's
compensation
payments.

R.S., c. 30.

"(u) Any amount received by any person as compensation under the *Workmen's Compensation Act* of any province of Canada or the *Government Employees' Compensation Act* in respect of any injury or disability incurred or in respect of any death."

Repeal.

5. (1) Paragraphs (c), (d) and (ee) as enacted by chapter thirty-four of the statutes of 1940 and paragraphs (e) and (i) as enacted by section four of chapter forty-one of the statutes of 1932-33, of subsection one of section five of the said Act are repealed.

(2) Paragraph (ff) of subsection one of section five of the said Act, as enacted by section six of chapter eighteen of the statutes of 1940-41, is repealed and the following paragraph is substituted therefor:—

Deductions
for super-
annuation or
pension fund.

"(ff) The amount actually paid by an employer to an employees' superannuation or pension fund or plan, approved by the Minister for the purposes of this paragraph, in respect of the services rendered to the employer by his employees, officers or directors, within the taxation year; provided, however, that such amount shall not exceed five per centum of the aggregate compensation paid within the taxation year to such employees, officers and directors covered by the said fund or plan after deducting from such aggregate compensation the excess above six thousand dollars paid to any such employee, officer or director, and provided further that in computing the amount actually paid by such employer the excess above three hundred dollars paid in any year in respect to the services of any such employee, officer or director shall not be allowed for the purposes of this paragraph."

(3) Paragraph (g) of subsection one of section five of the said Act, as enacted by section five of chapter thirty-eight of the statutes of 1936, is repealed and the following substituted therefor:—

Deductions
for super-
annuation or
pension
fund.

"(g) The amount not exceeding three hundred dollars actually retained by an employer from the remuneration of any tax-

NEW LEGISLATION RESPECTING TAXATION

payer in connection with an employees' superannuation or pension fund or plan, approved by the Minister for the purposes of this paragraph."

(4) Paragraph (jj) of subsection one of section five of the said Act, as enacted by section eight of chapter eighteen of the statutes of 1940-41, is repealed and the following substituted therefor:—

"(jj) An amount not exceeding five per centum of the income subject to taxation of any corporation, which amount has been paid by way of donation within the taxation period to and receipted for as such by any charitable organization in Canada operated exclusively as such and not for the benefit or private gain or profit of any person."

Donations to charitable organizations by corporations.

(5) Paragraph (m) of subsection one of section five, as enacted by section five of chapter forty-eight of the statutes of 1938, is repealed and the following substituted therefor:—

"(m) In the case of any special payment made in Canada by an employer on account of an employees' superannuation or pension fund or plan in respect of past services of employees, recommended by a qualified actuary in whose opinion the resources of such fund or plan require to be augmented by such special payment for the purpose of ensuring that all obligations of the fund or plan to the employees concerned may be discharged in full, approved by the Minister, on the advice of the Superintendent of Insurance, and made in such manner that the sum paid is irrevocably charged for the benefit of the said fund or plan, one-tenth of the payment in each of ten successive years, commencing in the year in which the payment is made: Provided, however, that in the case of any payment heretofore made as approved by the Minister, a deduction of one-tenth thereof shall be allowed in the 1942 fiscal period and in each fiscal period thereafter until ten years have elapsed from the year of the said payment."

Payments to superannuation or pension funds.

(6) Subsection one of the said section five is further amended by inserting the following paragraph after paragraph (m) thereof:

"(n) that portion of medical expenses in excess of five per centum of the income of the taxpayer incurred and paid within the taxation period or paid within the taxation period and incurred within one year prior to the date of payment, if payment is made to any qualified medical practitioner, dentist or nurse registered under any Dominion or provincial legislation or public or provincially licensed private hospital in respect of any birth in the family of, illness of or operation upon the taxpayer or his spouse or any dependent in respect of whom he may make a deduction from his normal tax under Rule five of section one of paragraph A of the First Schedule to this Act; including the salary or wages paid to one full time attendant upon the taxpayer, his spouse or any such dependent, who was throughout the whole of the taxation period necessarily confined by reason of illness, injury or affliction to a bed or wheel chair and including also the salary or wages paid to one full time attendant upon the taxpayer, his spouse or any such dependent who was totally blind throughout the whole of such taxation period and required the services of such an attendant: provided, however, that the deduction shall not exceed the sum of

Unusual Medical Expenses.

THE CANADIAN CHARTERED ACCOUNTANT

- (i) four hundred dollars in the case of a single person,
- (ii) six hundred dollars in the case of married person or person given an equivalent status in respect of rates of tax under this Act (provided that a husband and wife shall be entitled to only one such deduction of six hundred dollars between them).

plus

- (iii) one hundred dollars for each dependent in respect of whom he may make a deduction from his normal tax under Rule five of section one of paragraph A of the First Schedule to this Act but not exceeding four hundred dollars in respect of such dependents:

Proviso.

Provided further that payment of the said medical expenses is proven by receipts filed with the Minister."

(7) Subsection one of the said section five is further amended by adding the following paragraphs thereto:

Business losses in preceding year.

"(p) losses sustained in the process of earning income during the year last preceding the taxation year by a person carrying on the same business in both of such years, if in the calculation of such losses, no account is taken of any outlay, loss or replacement of capital or any payment on account of capital or any depreciation, depletion or obsolescence, or of any disbursements or expenses not wholly, exclusively and necessarily laid out or expended for the purpose of earning the income, except such amount for depreciation as the Minister may allow."

Military subsistence allowances.

"(q) subsistence allowances of commissioned officers of the Canadian naval, military and air forces, except to the extent that such subsistence allowances in any case exceed one dollar and seventy cents a day."

Repeal.

6. Subsections two, three, four, five and six of section five of the said Act are repealed.

Alimony.

7. (1) Paragraph (g) of subsection one of section six of the said Act is repealed and the following substituted therefor:—

"(g) any amount paid pursuant to a decree, order or judgment made by a competent tribunal in any action or proceeding for divorce or judicial separation or pursuant to a separation agreement as alimony or other allowance for the maintenance of the recipient thereof and the children of the marriage, if any."

(2) Paragraph (m) of subsection one of section six of the said Act is repealed and the following substituted therefor:—

Limitation of salary deduction.

"(m) the salary, bonus, director's fee or other remuneration in excess of fourteen thousand dollars paid by a company incorporated in Canada to a non-resident unless such non-resident pays tax thereon under subsection one of section nine of this Act."

8. (1) Section seven of the said Act, as amended by section twelve of chapter eighteen of the statutes of 1940-41, is repealed.

(2) The said Act is further amended by adding the following section immediately before section eight thereof as section seven A:—

NEW LEGISLATION RESPECTING TAXATION

7A. (1) Any person except those to whom subsection three of this section applies, may deduct from the aggregate of the taxes otherwise payable by him in any year under subsections one and three of section nine of this Act the aggregate of

Reduction of tax payable by reason of voluntary savings.

- (a) payments into any superannuation, retirement or pension fund or plan approved by the Minister which are paid by the taxpayer as a term of his employment or in connection with membership in a trade union;

- (b) premiums on

(i) life insurance policies on the lives of the taxpayer, his spouse and his dependents; and

Life insurance premiums.

(ii) annuities on the lives of the taxpayer, his spouse and his dependents or other instalment savings contracts, of a type which in the opinion of the Minister are such that the premiums cannot be postponed without substantial loss or forfeiture by the taxpayer; if such policies, annuities or other contracts were in force prior to the twenty-third day of June, one thousand nine hundred and forty-two;

Annuities.

- “(c) one-half of the first year's premiums and the whole of subsequent years' premiums on life insurance policies on the life of the taxpayer which were not in force prior to the twenty-third day of June, one thousand nine hundred and forty-two, and which are on the term plan or which are of a type that provide for premiums to be payable throughout the lifetime of the insured or until the insured attains at least the age of sixty-five and for a period of not less than thirty years; provided that the deduction by the taxpayer in any year in respect of premiums on such policies shall not exceed \$100;

- (d) principal payments on a mortgage or agreement of sale on or with respect to one residential property of the taxpayer, provided that such mortgage or agreement of sale was registered or in effect prior to the twenty-third day of June, one thousand nine hundred and forty-two or if not so registered, was to the satisfaction of the Minister in effect as an enforceable obligation of the taxpayer prior to the said date;

Principal payments on mortgage or agreement for sale.

if such aggregate is not greater than an amount equal to one-half of the taxes otherwise payable by him under subsections one and three of the said section nine less the deduction provided by section eight of this Act or the aggregate of

(i) an amount equal to eight per centum of his taxable income during the taxation year or eight hundred dollars, whichever is less, in the case of a person subject to tax under Rule three of section one of Paragraph A of the First Schedule to this Act, or, an amount equal to ten per centum of his taxable income during such year or one thousand dollars whichever is less in the case of a person subject to tax under Rule one of section one of Paragraph A of the First Schedule to this Act, and

(ii) an amount equal to one per centum of this taxable income during the taxation year or one hundred dollars whichever is less for each dependent in respect of whom he may make a deduction from his normal tax under Rule five of

THE CANADIAN CHARTERED ACCOUNTANT

section one of paragraph A of the First Schedule to this Act whichever is less.

(2) If in any case, the aggregate of the payments described in paragraphs (a), (b), (c) and (d) of subsection one of this section, is greater than either an amount equal to one-half of the taxes otherwise payable by the taxpayer under subsections one and three of section nine of this Act, or the aggregate of the amounts set out in paragraphs (i) and (ii) at the end of the said subsection one of this section, then the taxpayer may deduct from the aggregate of the taxes otherwise payable by him in any year under subsections one and three of section nine of this Act either an amount equal to one-half the taxes otherwise payable by him under subsections one and three of section nine of this Act, or the aggregate of the amounts set out in subparagraphs (i) and (ii) at the end of the said subsection one of this section, whichever is less.

Reduction of tax in case of persons over 65 years of age with incomes less than \$5,000.

(3) A person over sixty-five years of age may, if his income in the taxation year was less than five thousand dollars, deduct from the aggregate of the taxes otherwise payable by him in any year under subsections one and three of section nine of this Act, less the deductions provided by section eight of this Act, either one-half of such taxes or the aggregate of

(a) an amount equal to eight per centum of his taxable income during the taxation year or eight hundred dollars whichever is less in the case of a person subject to tax under Rule three of section one of Paragraph A of the First Schedule to this Act, or, an amount equal to ten per centum of his taxable income during such year or one thousand dollars whichever is less in the case of a person subject to tax under Rule one of section one of Paragraph A of the First Schedule to this Act, and

(b) an amount equal to one per centum of his taxable income or one hundred dollars whichever is less for each dependent in respect of whom he may make a deduction from his normal tax under Rule five of section one of paragraph A of the First Schedule to this Act,

whichever is less.

"Premiums" defined.

(4) The expression "premiums" in this section means in the case of industrial or fraternal insurance the amount of the gross premiums for one year, and in all other cases means the gross premiums for one year less dividends paid, policy loans obtained exclusive of interest and cash values paid within the taxation year."

9. Paragraph (a) of subsection one of section eight of the said Act is repealed and the following substituted therefor:

Income Tax paid to any other part of the British Empire.

"(a) The amount paid to Great Britain or to any of its self-governing dominions or dependencies for income tax in respect of the income of the taxpayer derived from sources therein; and"

10. Subsection two of section eight, as enacted by section fourteen of chapter eighteen of the statutes of 1940-41, and subsection three of the said section eight are repealed and the following substituted therefor:—

NEW LEGISLATION RESPECTING TAXATION

"(2) Such deduction shall not exceed the same proportion of the tax otherwise payable under this Act or the sum total of the income tax and excess profits tax otherwise payable under this Act and the *Excess Profits Tax Act, 1940*, as provided for in the proviso to subsection one of this section, as that which the taxpayer's net profits from sources within such country and taxed therein bears to his entire net profits from all sources without taking into account the deduction provided by Rule one of section two of paragraph A of the First Schedule to this Act.

Limitation.

1940, c.32.

"(3) Any such deduction shall be allowed only if the taxpayer furnishes evidence satisfactory to the Minister showing the amount of tax paid and the particulars of income derived from sources within Great Britain or any of its self-governing dominions or dependencies or any foreign country."

Evidence by taxpayer.

10A. Section 8 of the said Act is further amended by adding thereto the following subsection:—

"(5) A taxpayer shall be entitled to deduct from the sum total of the Income Tax payable by him under this Act and the Excess Profits tax payable under *The Excess Profits Tax Act, 1940*, forty per centum of the following:

Deductions of contributions for prospecting.

- (a) Contributions to associations, syndicates or mining partnerships registered or otherwise recognized under the laws of any province of Canada and organized for the purpose of prospecting in Canada for base metals or strategic minerals, not exceeding in the case of any one association, syndicate or mining partnership five hundred dollars, and not exceeding five thousand dollars in respect of the aggregate of the contributions made to all such associations, syndicates or mining partnerships; and
- (b) an amount not exceeding five thousand dollars actually expended by any mining or exploration company in prospecting for base metals or strategic minerals in Canada by means of its own prospectors;

Provided, that no such deductions shall be allowed unless the association, syndicate or mining partnership or mining or exploration company files certified statements of expenditures and satisfies the Minister that it has been actively engaged in prospecting for base metals or strategic minerals by means of qualified persons during a substantial part of the year one thousand nine hundred and forty-two and that in the case of an association, syndicate or mining partnership it has carried out the purpose for which it was formed."

11. The said Act is further amended by inserting the following section after section eight thereof:

"8A. Any person who is required by a decree, order or judgment made by a competent tribunal in any action or proceeding for divorce or judicial separation or pursuant to a separation agreement to make and does make any payment as alimony or other allowance for the maintenance of the recipient thereof and the children of the marriage if any, may, if he is living apart from the spouse or former spouse to whom he is required to make such payments, deduct from the taxes otherwise payable by him under subsections one and three of section nine of this Act, the amount of the tax which such spouse or former

Alimony.

THE CANADIAN CHARTERED ACCOUNTANT

spouse would pay upon the aggregate of such payments in the taxation year if such payments were the only income of such spouse or former spouse and such spouse or former spouse were an unmarried person resident in Canada with no dependents except the children, if any, for whose maintenance such payments were, in part, made."

12. Subsection one of section nine of the said Act, as amended by section six of chapter fourteen of the statutes of 1932-33 and subsection two of the said section nine, as enacted by section eight of chapter forty-one of the statutes of 1932-33, are repealed and the following subsections substituted therefor:—

Persons
liable to
Income Tax.

"9. (1) There shall be assessed, levied and paid upon the income during the preceding year of every person, other than a corporation or joint stock company,

- (a) residing or ordinarily resident in Canada at any time in such year; or
- (b) who sojourns in Canada in such year for a period or periods amounting to one hundred and eighty-three days; or
- (c) who is employed in Canada at any time in such year; or
- (d) who, not being resident in Canada, is carrying on business in Canada at any time in such year; or
- (e) who, not being resident in Canada, derives income for services rendered in Canada at any time in such year, otherwise than in the course of regular or continuous employment, for any person resident or carrying on business in Canada; or
- (f) who, before his appointment was a resident of Canada and is now or hereafter becomes a Minister, High Commissioner, officer, servant or employee of the government of Canada, or an agent general for any of the provinces of Canada, or any officer, servant or employee thereof, resident outside of Canada, except upon income received by way of salary from the said government;

a tax computed in accordance with the rules set forth in paragraph A of the First Schedule to this Act and the rate set forth in paragraph AA of the said First Schedule."

Corporations
and joint
stock
companies.

"(2) Save as herein otherwise provided, corporations and joint stock companies resident or carrying on business in Canada, no matter how created or organized, shall pay a tax upon income at the rate applicable thereto set forth in the First Schedule to this Act."

13. (1) Subsection two of section nine of the said Act, as enacted by section nine of chapter forty-one of the statutes of 1932-33 and as amended by section five of chapter fifty-five of the statutes of 1934, by section nine of chapter forty of the statutes of 1935, by sections seven and eight of chapter thirty-eight of the statutes of 1936, by section ten of chapter forty-six of the statutes of 1939 (First Session), and by section sixteen of chapter eighteen of the statutes of 1940-41, is further amended by adding the following paragraph at the end thereof:—

Salaries
and other
periodical
payments.

"(f) salaries, wages, premiums, annuities, compensation, remunerations, emoluments, rents and other fixed or determinable annual or periodical gains, profits and income received from

NEW LEGISLATION RESPECTING TAXATION

sources within Canada by any such non-resident person, who is not engaged in trade or business within Canada, has not an office or place of business therein, and has not performed personal services within Canada at any time in the year, provided that such non-resident is a resident of a country which imposes a tax of a similar nature in respect of similar kinds of income derived from sources within such country and payable to non-residents of such country.

"The tax payable by virtue of this paragraph shall be deducted by the Canadian debtor from the amount paid or credited to such non-resident at the time of payment or crediting and shall be remitted to the Receiver General of Canada."

(2) Subsections three, four and nine, as enacted by section seventeen of chapter eighteen of the statutes of 1940-41, and subsections five, seven and eight, as enacted by section nine of chapter forty-one of the statutes of 1932-33, of the said section nine B, are repealed and the following substituted therefor:—

"(3) In the case of bearer coupons or warrants, whether representing interest or dividends, the taxes imposed by this section shall be collected by the encashing agent or debtor who shall, in the case of the tax imposed by subsection one of this section, withhold five per centum of the interest or dividends in respect of which such tax is imposed, and, in the case of the tax imposed by subsection two of this section, withhold fifteen per centum of the interest or dividends in respect of which such tax is imposed, and remit the same to the Receiver General of Canada; Provided that any encashing agent so withholding and remitting shall be entitled to recover one hundred per centum of such interest or dividends represented by such bearer coupon or warrant from the debtor.

Collection and remittance. Bearer coupon or warrant.

"(4) In the case of interest or dividends in respect of fully registered shares, bonds, debentures, mortgages or any other obligations, the taxes imposed by this section shall be collected by the debtor who shall, in the case of the tax imposed by subsection one of this section, withhold five per centum of the interest or dividends in respect of which such tax is imposed, and, in the case of the tax imposed by subsection two of this section withhold fifteen per centum of the interest or dividends in respect of which such tax is imposed and remit the same to the Receiver General of Canada.

Collection and remittance. Interest or dividends.

"(5) No exemptions, deductions or tax credits provided by any other section of this Act shall apply in the case of the taxes imposed by this section except those exemptions provided by paragraphs (a), (b), (c) and (k) of section four of this Act."

Exemptions or deductions not allowed.

"(7) For the purposes of this section the Minister shall have full power to determine the persons who are deemed to be residents of Canada, and in the case of a person who is resident abroad as well as in Canada, what income is taxable under the provisions of paragraphs (a), (b), (c), (d), (e) and (f) of subsection two of this section.

Determination as to who are residents.

"(8) Whenever an agent of a non-resident person receives payment of any money in respect of which a tax is imposed under this section and from which the tax has not been withheld, such agent shall withhold the tax from his principal and remit the same to the Receiver General of Canada.

Agent for non-resident person.

NEW LEGISLATION RESPECTING TAXATION

Creditor
to bear
the tax.

"(9) Every agreement for payment to a non-resident person of any money in respect of which a tax is imposed upon such non-resident person by this section, without deducting or withholding such tax, is void."

Subsection
two of
section 13
not enacted
in respect of
interest on
obligations
and
provinces,
etc.

14. Notwithstanding anything contained in subsection two of section thirteen of this Act, section nine of the *Income War Tax Act* shall have effect as if the said subsection two had not been enacted in respect of interest on bonds or other obligations of or guaranteed by His Majesty in right of any province and in respect of interest on bonds or other obligations, provision for the payment of which interest is made by His Majesty in right of any province pursuant to a statute.

15. (1) Subsection two of section eleven of the said Act as enacted by section seven of chapter fifty-five of the statutes of 1934 and amended by section ten of chapter thirty-eight of the statutes of 1936, is repealed and the following is substituted therefor:

Trusts for
unascertained
persons.

"(2) Income accumulating in trust for the benefit of unascertained persons, or of persons with contingent interests shall be taxable in the hands of the trustee or other like person acting in a fiduciary capacity, as if such income were the income of a person other than a corporation; provided that he shall not be entitled to the deductions for which provision is made in Rule five of section one and Rules one, three, four and five of section two of paragraph A of the First Schedule to this Act; Provided, further, that should more than one such trust be created, substantially all the assets of which are received from one person (whether or not administered by the same or different trustees) and be so conditioned as to fall in ultimately in favour of one beneficiary, class or group of beneficiaries, then the income of the several trusts shall be taxed as one trust in the hands of such one of the trustees as the Minister may determine."

Trusts in
favour of
the same
beneficiary.

(2) Paragraph (c) of subsection four of section eleven of the said Act, as enacted by section nineteen of Chapter eighteen of the statutes of 1940-41, is repealed and the following is substituted therefor:

Income
capitalized.
How taxed.

"(c) income taxable under the provisions of this subsection shall be taxed as if such income were the income of a person other than a corporation, provided that no deduction may be made under Rule five of section one and Rules one, three, four and five of section two of paragraph A of the First Schedule to this Act."

16. Section thirteen of the said Act, as enacted by section ten of chapter forty-one of the statutes of 1932-33, is amended by adding thereto the following subsection:—

Tax
avoidance.

"(2) Where the Minister is of opinion that taxation for any period has been or may be reduced as a result of any transaction entered into after the thirty-first day of December, one thousand nine hundred and forty-one, he shall have the power to determine in the notification sent by registered letter as provided for in subsection one of this section that the amount of such accumulation which he considers excessive shall be deemed to be distributed on the date of the said notification and the shareholders shall be deemed to have received such amount of profits as a dividend on the date of such notification and shall be taxable accordingly."

NEW LEGISLATION RESPECTING TAXATION

17. Subsection two of section nineteen of the said Act, as enacted by section eleven of chapter thirty-eight of the statutes of 1936, is repealed and the following substituted therefor:—

"(2) Where, pursuant to subsection one of this section a dividend is deemed to be paid to a company incorporated or carrying on business in Canada, such company shall, notwithstanding section four of this Act, be taxable on the amount thereof; and where, pursuant to subsection one of this section a dividend is deemed to be paid to a company incorporated outside of Canada which does not carry on business in Canada, the company making the payment, unless it is one of the companies described in paragraph (p) of section two or paragraph (k) of section four of this Act, shall deduct from such payment the amount of income tax payable thereon under subsection two of section nine of this Act at the rate applicable thereto at the time when such payment is deemed to be made and shall pay the same to the Receiver General of Canada."

Corporation tax to be paid if through sale or winding up the dividend deemed to be paid thereby is paid to a corporation.

18. Section twenty-five A of the said Act, as enacted by section six of chapter twenty-four of the statutes of 1930, is amended by adding thereto the following subsection:—

"(2) Any tax deducted under the provisions of subsection two of section nine B of this Act from any dividends or interest which are made taxable under subsection one of this section shall be applied as a credit against the tax subsequently found due by any non-resident person whose income is liable to taxation under the provisions of subsection one of this section."

Credit if non-resident's tax deducted at the source.

19. (1) Subsections three and four of section twenty-seven of the said Act, as enacted by section twenty-two of chapter thirty-four of the statutes of 1940, are repealed and the following substituted therefor:—

"(3) The amount so deducted shall be remitted to the Receiver General of Canada at the same time as the payment is made to or placed to the credit of the non-resident person, and shall be accompanied by a statement in the form prescribed by the Minister.

Remittance of amount deducted.

"(4) Whenever an agent of a non-resident person receives payments on account of anything mentioned in this section, from which the deduction herein mentioned has not been made, such agent shall make such deduction before he pays over or places such sum to the credit of his principal and shall remit the amount thereof to the Receiver General of Canada."

Duties of agent of non-resident.

"(2) The said section twenty-seven, as enacted by section twenty-two of chapter thirty-four of the statutes of 1940 and amended by sections twenty-two and twenty-three of chapter eighteen of the statutes of 1940-41, is further amended by adding the following thereto as subsection eight thereof:—

"(8) Subsection seven of this section shall only be applicable to persons resident in a country which grants a similar privilege to residents of Canada liable to pay a tax in such country upon rentals from real estate therein."

Limitation.

20. Section thirty-three of the said Act, as amended by section twenty-four of chapter eighteen of the statutes of 1940-41, is repealed and the following substituted therefor:—

"33. (1) Every person liable to taxation under this Act shall,

Annual returns.

- (a) on or before the thirtieth day of September in each year if his salary or wages are equal to or greater than three-quarters of his income, and
- (b) on or before the thirtieth day of April in each year in the case of all other persons;

without notice or demand, deliver to the Minister a return in such form as the Minister may prescribe, of his total income during the last preceding year.

(2) Any person, whether liable to tax under this Act or not, shall at any time upon receipt of a notice or demand in writing from the Commissioner of Income Tax or any officer authorized to make such demand, deliver to the Minister a return, in such form as the Minister may prescribe, of his total income during the last preceding year."

21. Section thirty-four of the said Act is amended by adding the following subsection thereto:—

Death of
Partner.

"(2) In case a partner or proprietor dies after the close of the fiscal period but before the end of the calendar year, a separate return of the income of the deceased partner or proprietor from the business after the close of such fiscal period up to the date of death shall be made and income tax shall be assessed, levied and paid upon such income as if the same were the income of another person."

22. (1) Subsection one of section thirty-nine of the said Act is repealed and the following substituted therefor:—

Returns by
employers.

"**39.** (1) Every employer shall make a return on such form as the Minister may prescribe on or before the fifteenth day of October in each year showing

- (a) every person in his employ who received any salary or other remuneration in the preceding calendar year and the amount of such salary or other remuneration;
- (b) the amount of the tax deducted pursuant to section ninety-two of this Act from the salary and wages of each person in his employ in the twelve month period ending the thirty-first day of August in the year in which such return is required to be made; and
- (c) in the case of the return to be filed on or before the fifteenth day of October, nineteen hundred and forty-three, the amount of National Defence tax deducted under section ninety-one of this Act in the months of January to August, inclusive, of the year nineteen hundred and forty-two."

(2) Subsection four of the said section thirty-nine, as enacted by section seven of chapter fourteen of the statutes of 1932-33, is repealed and the following substituted therefor:—

Information
returns—last
day of
February.

"(4) The returns required by subsections two, two A and three of this section shall be delivered to the Minister on or before the last day of February in each year without any notice or demand being made therefor and in such form as the Minister may prescribe."

23. Section forty-eight of the said Act, as enacted by section fifteen of chapter thirty-eight of the statutes of 1936 and amended by

NEW LEGISLATION RESPECTING TAXATION

section twenty-six of chapter eighteen of the statutes of 1940-41, is repealed and the following substituted therefor:—

"48. (1) Every person liable to pay any tax under any of the provisions of this Act, except sections nine B, twenty-seven and eighty-eight thereof, shall estimate the amount of such tax payable by him in the return of the income upon which such tax is payable.

Taxpayer's
estimate
of tax
payable.

(2) Any person from whose salary or wages any amount has been deducted under section ninety-two of this Act shall, if the aggregate of his salary or wages during the taxation year is equal to or greater than three-quarters of his income for such year, pay to the Receiver General of Canada at the time when he is required under section thirty-three of this Act to make the return of his income for such taxation year, the amount by which the tax on his income during such year, as estimated under subsection one of this section, exceeds the aggregate of

Payment of
balance of
tax with
return.

(i) all amounts deducted from his salary or wages under subsection two of section ninety-two of this Act during the twelve month period commencing the first day of September in the taxation year;

(ii) All amounts deducted under subsection one of section ninety-two of this Act during the taxation year from interest or dividends forming part of his income; and

(iii) in respect of the tax payable on income for the year nineteen hundred and forty-two only, all amounts deducted from his income as National Defence Tax under the provisions of section ninety-one of this Act in the months of January to August, nineteen hundred and forty-two, both inclusive,

and if any person fails to pay any amount which he is required to pay by this subsection, or any part thereof, as thereby required, he shall pay interest thereon at the rate of five per centum per annum from the day on or before which such payment was required to be made to the day of payment.

(3) Every person, other than a corporation or a person to whom subsection two of this section applies, shall pay all taxes which he is liable to pay upon his income during any taxation year under any of the provisions of this Act, except sections nine B, twenty-seven and eighty-eight thereof, by quarterly instalments during the twelve month period commencing the first day of September in the taxation year, as follows:—

Payment by
instalments.

(a) on or before the fifteenth day of October and on or before the fifteenth day of January in such period, an amount equal to one-quarter of such tax as estimated by him on his income for the year last preceding the taxation year or on his estimated income for the taxation year, at the rates for the taxation year; and

(b) on or before the fifteenth day of April and on or before the fifteenth day of July in such period, one-half of the amount by which the tax payable as estimated by him on his income for the taxation year at the rates for the taxation year exceeds the aggregate of

(i) all amounts paid under paragraph (a) of this subsection, and

THE CANADIAN CHARTERED ACCOUNTANT

(ii) all amounts deducted during the taxation year from earnings, interest or dividends, forming part of his income under section ninety-one and subsection one of section ninety-two of this Act, and

(iii) all amounts deducted from his salary or wages under subsection two of section ninety-two of this Act during the twelve month period commencing the first day of September in the taxation year;

and if, after examination of any person's return under section fifty-three of this Act, it is established for the purposes of this Act that the instalments paid by him under this subsection amount, in the aggregate, to less than the tax payable, he shall forthwith after notice of assessment is sent to him under section fifty-four of this Act, pay the unpaid amount thereof together with interest thereon at five per centum per annum from the thirtieth day of April in the period during which such instalments were payable until the date of payment.

Monthly
instalment
payments by
corporations.

(4) Every corporation shall pay all taxes which it is liable to pay in any taxation year under any of the provisions of this Act, except sections nine B, twenty-seven and eighty-eight thereof, by instalments payable on or before the last day of each month during the twelve month period ending six months after the close of such taxation year, as follows:

(a) during the first eight months in such period, an amount equal to one-twelfth of such tax as estimated by it on its income for the year last preceding the taxation year or on its estimated income for the taxation year at the rate for the taxation year;

(b) during the last four months in such period, one-fourth of the amount by which the tax payable as estimated by it on its income for the taxation year at the rate for the taxation year, exceeds the aggregate of

(i) the amounts paid under paragraph (a) of this subsection, and

(ii) the amounts deducted during the taxation year under subsection one of section ninety-two of this Act from interest or dividends forming part of its income,

and if, after examination of any corporation's return under section fifty-three of this Act, it is established for the purposes of this Act that the instalments paid by such corporation in any year under this section amount, in the aggregate, to less than the tax payable, it shall forthwith after notice of assessment is sent to it under section fifty-four of this Act, pay the unpaid amount thereof together with interest thereon at five per centum per annum from the day four months after the end of the taxation year until the date of payment.

Interest.

(5) If any person who is required to pay on the quarterly instalment basis as provided in subsection three of this section pays less than the amount which he is required to pay on any such date as provided in the said subsection, he shall pay interest at eight per centum per annum upon the amount by which his payment on such instalment date is less than the amount required to be paid on such date from the date when such instalment became due to the date of payment.

NEW LEGISLATION RESPECTING TAXATION

(6) If any corporation pays less than one-twelfth of the tax as estimated by it on its income for the year last preceding the taxation year, or on its estimated income for the taxation year at the rates for the taxation year during each of the first eight months of the twelve month period ending six months after the close of such taxation year, or if it pays less than the amount required as provided in paragraph (b) of subsection four of this section during the last four months in such twelve month period ending six months after the close of such taxation year, it shall pay interest at the rate of eight per centum per annum upon the deficiency in any instalment from the date when such instalment was due to the date of payment; provided, however, that the interest in respect of the first two months' instalments in such twelve month period ending six months after the close of the taxation year one thousand nine hundred and forty-two shall be at the rate of three per centum per annum during such twelve month period (and thereafter at the eight per centum per annum rate) upon any deficiency in any instalment due in the said two months." Interest.

24. Section forty-nine of the said Act, as enacted by section fifteen of chapter thirty-eight of the statutes of 1936, is repealed and the following substituted therefor:—

"**49.** If any person fails to pay any amount which he is required to pay by subsection two of section forty-eight of this Act, or any part thereof, as thereby required, he shall pay, in addition to the interest therein provided for, interest on the amount which he so fails to pay at the rate of three per centum per annum from the day on or before which such payment was required to be made to the day of payment." Penalty for short payment.

25. Subsection two of section fifty-four of the said Act is repealed and the following substituted therefor:—

"(2) Except as otherwise provided in this Act, any additional tax found due over the estimated amount shall be paid within one month from the date of the mailing of the notice of assessment." Payment of additional tax.

26. Subsection two of section eighty of the said Act as enacted by section one of chapter thirty of the statutes of 1928 is repealed and the following substituted therefor:—

"(2) Any information or complaint with respect to any offence referred to in subsection one of this section, whenever the prosecution, suit or proceeding is instituted under the provisions of the *Criminal Code* relating to summary convictions, may be laid or made within three years from the time when the matter of the information or complaint arose." Information or complaint within three years.
R.S. c. 36.

27. Section eighty-four of the said Act, as enacted by section sixteen of chapter forty-one of the statutes of 1932-33, is amended by adding thereto the following subsection:—

"(3) Where any sum of money is owing by virtue of the provisions of this section, the Minister shall make a written demand by registered letter to the person owing such moneys for the amount thereof and such demand shall constitute a notice of assessment for the purposes of this Act and sections fifty-five to seventy-four, both inclusive, of this Act shall apply *mutatis mutandis*." Demand by registered Post. Notice of assessment.

28. The Schedule of rates at the end of subsection one of section eighty-eight of the said Act, as enacted by section twenty-seven of

THE CANADIAN CHARTERED ACCOUNTANT

chapter eighteen of the statutes of 1940-41, is repealed and the following substituted therefor:

Gift tax
rates.

"On gifts up to and including \$5,000	—10%
On gifts exceeding	
\$ 5,000 but not exceeding \$ 10,000	—11%
\$ 10,000 but not exceeding \$ 20,000	—12%
\$ 20,000 but not exceeding \$ 30,000	—13%
\$ 30,000 but not exceeding \$ 40,000	—14%
\$ 40,000 but not exceeding \$ 50,000	—15%
\$ 50,000 but not exceeding \$ 75,000	—16%
\$ 75,000 but not exceeding \$ 100,000	—17%
\$ 100,000 but not exceeding \$ 150,000	—18%
\$ 150,000 but not exceeding \$ 200,000	—19%
\$ 200,000 but not exceeding \$ 250,000	—20%
\$ 250,000 but not exceeding \$ 300,000	—21%
\$ 300,000 but not exceeding \$ 400,000	—22%
\$ 400,000 but not exceeding \$ 500,000	—23%
\$ 500,000 but not exceeding \$ 600,000	—24%
\$ 600,000 but not exceeding \$ 700,000	—25%
\$ 700,000 but not exceeding \$ 800,000	—26%
\$ 800,000 but not exceeding \$1,000,000	—27%
\$1,000,000	—28%

29. Subsection three of section eighty-eight of the said Act, as enacted by section twenty-eight of chapter eighteen of the statutes of 1940-41, is repealed and the following substituted therefor:—

Date
payable.

"(3) The tax shall be paid in full to the Receiver General of Canada on or before the thirtieth day of April next succeeding the year in which the gifts were made; and if not so paid the tax shall bear interest at the rate of eight per centum per annum from the date payable."

National
Defence
Tax
repealed.

30. Section ninety-one of the said Act, as enacted by section twenty-six of chapter thirty-four of the statutes of 1940 and amended by section thirty-one of chapter eighteen of the statutes of 1940-41, shall be repealed on and after the first day of September, one thousand nine hundred and forty-two and any moneys deducted during the year one thousand nine hundred and forty-two from earnings, interest or dividends forming part of any person's income pursuant to the provisions thereof, and remitted to the Receiver General of Canada shall be deemed to have been paid on account of the taxes imposed and levied under section nine of this Act upon the income of such person for the year one thousand nine hundred and forty-two.

31. The said Act is further amended by adding thereto the following parts:

"PART XVI

TAX DEDUCTION AT THE SOURCE

Interest
and
dividends.

92. (1) Every person becoming liable, on or after the first day of September, one thousand nine hundred and forty-two, to pay to any person described by paragraphs (a), (b), (c), (d) and (e) of subsection one of section nine of this Act, either forthwith or on demand,

(i) any amount as interest pursuant to the provisions of a fully registered bond, debenture or other similar obligation, or

NEW LEGISLATION RESPECTING TAXATION

(ii) any amount by way of dividend in respect of any share of stock,

shall deduct or withhold therefrom an amount equal to seven per centum of such amount or sum and shall, one week from the day when the liability to make such payment arises, or from the day when the creditor's right to demand payment thereof arises, or at such other time as the Minister may by regulation prescribe remit the same to the Receiver General of Canada on behalf of the creditor to whom such interest or dividend is payable as a payment on account of taxes payable by such person under section nine of this Act.

(2) Every employer who, after the first day of September, one thousand nine hundred and forty-two, pays any salary or wages to any person in his employ who is resident or employed in Canada with respect to any established payroll period commencing after the thirty-first day of August, one thousand nine hundred and forty-two shall deduct or withhold from such salary or wages such amount in respect of the taxes payable under section nine of this Act by such person, as may be prescribed by regulations made by the Governor in Council and published in the *Canada Gazette*, and shall remit the same to the Receiver General of Canada as a payment on account of such taxes within one week of the day when he becomes liable to pay such salary or wages or at such other time as the Minister may by regulation prescribe.

Salary and
Wages.

(3) Every person liable to deduct or withhold any amount under subsections one or two of this section shall from time to time make a return at such time and in such form, and containing such information, as the Minister may prescribe.

Returns.

(4) Every person whose employer is required to deduct or withhold any amount from his salary or wages under subsection two of this section shall, prior to the first day of September, nineteen hundred and forty-two or as may be prescribed by regulations hereunder, or, if his employment commences after that date, immediately thereafter furnish to his employer such information as the Minister may require on a form prescribed by the Minister.

Information
furnished
employer by
employee.

(5) Every employee failing to file with his employer the form prescribed in subsection four of this section shall be liable to have the deduction from his salary or wages provided for in subsection two of this section made at the rate authorized as hereinbefore provided in respect of an unmarried person without dependents in receipt of a salary within the range in which such employee is paid and without regard to the tax credit to which he would otherwise have been entitled in respect of persons dependent upon him for support.

Failure to
file form.

(6) Any person who, pursuant to subsections one or two of this section, deducts or withholds any amount from any payment which he is liable to make to any person shall be deemed to hold the amount so deducted or withheld in trust for His Majesty.

Moneys held
in trust.

(7) All amounts deducted or withheld by any person under subsections one and two of this section shall be kept separate and apart from the moneys of the person so deducting and in the event of any liquidation, assignment or bankruptcy of the person who made such deductions the said amounts so deducted shall remain apart and form no part of the estate of such person in liquidation, assignment or bankruptcy. In any event the moneys so deducted shall be paid

Priority.

THE CANADIAN CHARTERED ACCOUNTANT

over to His Majesty in full in priority to the claims of any secured or unsecured creditors including any claims of His Majesty in right of any province of Canada.

Refunds.

(8) If the Minister is of the opinion that any person on whose behalf money has been paid to the Receiver General of Canada under this section was not liable to pay any tax under this Act, or if the Minister is of opinion that the moneys paid to the Receiver General of Canada under this section on behalf of such person are in excess of the tax which such person was liable to pay under this Act, the Minister may, upon application by such person in writing within twelve months from the close of the calendar year in which such money was paid, repay to him the amount so paid or such part thereof as in his opinion such person was not liable to pay.

Penalty.

(9) Any person who fails to comply with any of the requirements of this section shall be guilty of an offence and liable on summary conviction to a penalty not exceeding ten thousand dollars or to six months' imprisonment, or to both such fine and such imprisonment.

No action against person collecting or withholding.

(10) No action shall lie against any person for withholding or deducting any sum of money in compliance or intended compliance with this section or any regulation made thereunder,

Definition.

(11) In this section, unless the context otherwise requires,

(a) "salary or wages" includes any remuneration, compensation, hire, emolument, stipend, perquisite or any similar payment or any indemnity, pension or director's fee, howsoever paid for any services, functions or duties rendered or performed in Canada; and

(b) "employer" means any person liable to pay any salary or wages and includes His Majesty in right of Canada and any province of Canada.

Persons not liable.

(12) Interest or dividends payable to the following persons shall not be liable to the deduction at the source provided in subsection one of this section:—

(a) persons and institutions mentioned in paragraphs (a) to (i), both inclusive, and in paragraphs (p) and (q) of section four of this Act,

(b) municipalities or municipal or public bodies which in the opinion of the Minister perform a function of government.

(c) His Majesty in right of Canada or any province of Canada.

(13) Dividends payable to corporations shall not be liable to the deduction at the source provided in subsection one of this section.

PART XVII

REFUNDABLE PORTION OF TAX

Amount refundable.

93. (1) The Minister shall, in respect of any taxes paid, as herein provided, refund to each taxpayer the amount by which either one-half of the taxes which he was liable to pay upon his income for any taxation year after one thousand nine hundred and forty-one less the deductions provided by section eight and before any amount

NEW LEGISLATION RESPECTING TAXATION

was deducted therefrom under section seven A of this Act or the aggregate of

- (a) an amount equal to eight per centum of his taxable income during the taxation year or eight hundred dollars whichever is less in the case of a person subject to tax under Rule three of section one of Paragraph A of the First Schedule to this Act, or, an amount equal to ten per centum of his taxable income during such year or one thousand dollars whichever is less, in the case of a person subject to tax under Rule one of section one of Paragraph A of the First Schedule to this Act; and
- (b) an amount equal to one per centum of his taxable income during the taxation year, or one hundred dollars whichever is less for each dependent in respect of whom he may make a deduction from his normal tax under Rule five of section one of paragraph A of the First Schedule to this Act,

whichever is less, exceeds the aggregate of the amounts which such taxpayer is entitled to deduct under section seven A of this Act from the taxes otherwise payable by him upon his income during the taxation year under subsections one and three of section nine of this Act.

(2) The amounts refundable under subsection one of this section shall be paid to the taxpayer after the cessation of hostilities between Canada and Germany, Italy and Japan, at such times and in such instalments as may be prescribed by regulation made by the Governor in Council, but in the case of taxes paid upon income for nineteen hundred and forty-two taxation period not later than the end of the second fiscal period of the Government of Canada commencing after a date to be fixed for the purposes of this Act and of *The Excess Profits Tax Act, 1940*, by the Governor in Council as the date of the cessation of hostilities between Canada and Germany, Italy and Japan, and in the case of taxes paid upon income for each subsequent year not later than one year subsequent to the date fixed for the repayment of taxes paid upon income for the next succeeding year; provided, however, that in the event of the death of the taxpayer, payment may be made to his legal representative at a date earlier than the date hereinbefore specified.

Time
repayable.

(3) The Minister shall pay, together with any payment made pursuant to subsection one of this section, interest on the amount thereof at the rate of two per centum per annum from the first day of October next after the end of the year in respect of which the refundable portion of the tax on the income of the year is levied."

Interest.

32. Subsection one of section eighteen of the French version of the said Act is amended by striking out in the sixth and seventh lines thereof the words "la corporation a en caisse des recettes non distribuées" and substituting therefor "la compagnie a en sa possession un revenu non distribué."

French
version
amended.

33. (1) Sections one, two, four, six, seven, nine, ten, eleven, twelve, fifteen, seventeen, eighteen, nineteen and twenty-one and subsections one and two of section three of this Act and subsection two of section three of the *Income War Tax Act* as enacted in subsection three of section three of this Act, and subsections one, three and six of section five of this Act, and paragraph (g) of subsection one of section five of the *Income War Tax Act* as enacted in subsection seven

Coming into
force.

of section five of this Act and subsection two of section eight and subsection two of section thirteen of this Act shall be applicable to income of the 1942 taxation period and fiscal periods ending therein and of all subsequent periods.

(2) Subsections two and four of section five and subsection one of section eight of this Act shall be applicable to income of the 1941 taxation period and of fiscal periods ending therein and of all subsequent periods.

(3) Subsection three of section three of the *Income War Tax Act* as enacted by subsection three of section three of this Act shall be deemed to have come into force on and after the first day of July, 1942, and shall be applicable to the profits of the taxation year 1942 and of fiscal periods ending therein subsequent to June thirtieth and of subsequent years and fiscal periods; provided, however, that if any fiscal period ends between June thirtieth one thousand nine hundred and forty-two and July first one thousand nine hundred and forty-three, the provisions of the said section shall apply to only that portion of the profits which the number of days of such fiscal period since June thirtieth one thousand nine hundred and forty-two bears to the total number of days in such fiscal period.

(4) Subsection one of section thirteen and section twenty-eight shall be deemed to have come into force on the twenty-fourth day of June, 1942, and shall be applicable to all payments on or after the said date.

(5) Section ten A shall apply only in respect of contributions or expenditures made during the calendar year 1942 and in respect of taxes payable upon income of the taxation year 1942 or fiscal periods ending in 1942 or 1943.

(6) Paragraph (p) of subsection one of section five of the *Income War Tax Act*, as enacted in subsection seven of section five of this Act, shall be applicable to the taxation year 1943 and fiscal periods ending therein.

(7) Sections twenty and twenty-two of this Act shall come into force on the first day of January, 1943, and shall be applicable to the income of 1942 and of fiscal periods ending therein.

(8) Subsections four and six of section forty-eight of the *Income War Tax Act*, as enacted by section twenty-three of this Act shall apply in respect of fiscal periods ending on and after the thirty-first day of December, 1942.

(c) Special War Revenue Act

A number of amendments were made to this Act at the 1942 session of Parliament. A copy of the statute (Chapter 32 of the 1942 Statutes) may be obtained from the King's Printer, Ottawa.

THE SOCIETY OF CHARTERED ACCOUNTANTS OF THE PROVINCE OF QUEBEC

Addresses of Retiring-President Wm. H. Campbell and President-Elect Alfred Smibert at the annual meeting of the Society on 25th June 1942:

Mr. Campbell: I have now completed my term of office as President of your Society and wish to thank you for the honour and privilege of guiding the affairs of the Society for the past year.

It has been quite an active period as evidenced by the matters referred to in the Annual Report submitted and I believe that your officers, with the assistance of the Council, have furthered the interests of the Society as well as the individual members. Special attention was given during the year to the question of tuition of students, and an extensive inquiry was made into the courses given by McGill University with the result that changes were made which are likely to improve the standing of this course and produce better qualified and trained accountants. The courses of training carried out by other schools were also studied and, while this feature of the review has not been concluded, nevertheless satisfactory progress can be reported.

The charter and by-laws were changed during the year and it is felt that the new by-laws will provide the Council with greater control over student registration and in addition allow the Council to guide and control to a greater extent the affairs of the students after registration.

There was a satisfactory increase in the membership of the Society during the year and it may be of interest for me to report the growth in membership during the last three decades: in 1922 the membership was 120; in 1932, 343; and in 1942, 686. The same permanent record has not been kept in regard to students but in 1932 we had 340 students and in 1942, 457. You will note that the increase in students has not kept pace with the increase in members for the last decade but this is no doubt accounted for by the fact that so many of our qualified members have, during the past few years, not gone into practice but have entered the commercial field.

The practising members of the Society are entering an extremely difficult period brought about by the War and the

method of building up a competent staff by means of the student system will, to a large extent, be impossible for the duration, but we have a responsibility to our clients and probably a greater responsibility to the students who will one day return and expect to enter their old firms. This difficulty is being overcome partially, and no doubt the practice will increase, by taking on young women as students and intermediates. I am sure we will find that those young women who have a reasonably good education and a flair for mathematics will make very satisfactory assistants, and no doubt a number of them will, in the course of time, become some of our leading accountants. We have at the present time five qualified women members and ten registered as students; the first member qualified in 1930. While no great publicity has been given to this matter, probably our Society was among the first, if not the first, to have women as members.

I could not close without paying special tribute to our members and students who are serving in His Majesty's forces. Their names are given on the last page of the report and we wish them the best of luck and hope they will all, as a result of victory, be back with us soon.

Mr. Smibert: I thank you for the honour you have just conferred upon me. Only a few days ago I was looking over some of the Society's history and I found some rather interesting information. The membership of the Society twenty years ago was 120; ten years later that number had gone up to 343 and by some strange coincidence this figure exactly doubled in the next ten years for today we have 686. You will observe that we are still living up to the old Quebec tradition of adding rapidly to our family. As that family has increased so has the work of your Council which calls for sacrificing a great deal of personal time in dealing with matters of vital interest not only to our members and students but to the profession throughout the Dominion.

We are all carrying on under extremely difficult conditions brought about by enlistments and Government demands for trained accountants all of which result in depleted staffs. Of 1,143 members and students we have on Active Service alone no less than 205 and this does not take into consideration the large number engaged in government departments and war industries. In view of the conditions I

COST-OF-LIVING BONUS ORDER

mention I hope you will be very indulgent with your Council.

The Society has been very fortunate in the past in its Presidents; they have all been men who have possessed certain special talents, talents which have been devoted in no small degree to the interests of the profession. Mr. Campbell has been no exception and I want to pay tribute to him for his outstanding service. As incoming President I personally am especially pleased that he will remain on the Council where we will have the benefit of his sound and excellent judgment. I am also grateful to the members for electing a representative Council of such excellent calibre and I am sure all will render the highest degree of service.

COST-OF-LIVING BONUS ORDER

Of the National War Labour Board

The Dominion Bureau of Statistics has found that the cost-of-living index number for 2nd July 1942 of 117.9 (adjusted index 117) has risen by 2.4 points over the index for 1st October 1941 of 115.5 (adjusted index 114.6).

Accordingly, pursuant to the provisions of Section 34 (1) of the Wartime Wages Control Order P.C. 5963, and subject to the general provisions of the Order, the National War Labour Board orders that employers subject to the Order who are paying a cost-of-living bonus shall adjust the amount of such bonus payment, and employers who are not paying a cost-of-living bonus shall commence the payment of such a bonus, both effective from the first payroll period beginning on or after 15th August 1942 as follows:

- (a) If payment of a cost-of-living bonus is being made pursuant to the provisions of Order in Council P.C. 8253 (now superseded by P.C. 5963):
 - (i) for employees to whom Section 48 (iii) (a) of P.C. 5963 applies, the bonus shall be increased by the amount of sixty cents (60c) per week,
 - (ii) for employees to whom Section 48 (iii) (b) of P.C. 5963 applies, the percentage of their weekly wage rates, paid to them as a cost-of-living bonus, shall be increased by 2.4 points;
- (b) If no cost-of-living bonus is being paid, the payment of such a bonus shall be commenced:

- (i) for employees to whom Section 48 (iii) (a) of P.C. 5963 applies in the amount of (60c) cents per week,
- (ii) for employees to whom Section 48 (iii) (b) of P.C. 5963 applies, in the amount of 2.4 per cent of their weekly wage rates;
- (c) In no case shall the amount of a cost-of-living bonus adjusted as stated exceed a maximum of \$4.25 per week to employees to whom Section 48 (iii) (a) of P.C. 5963 applies, and of 17% of their weekly wage rates to employees to whom Section 48 (iii) (b) of P.C. 5963 applies;
- (d) (1) (i) for employees to whom Section 48 (iii) (a) of P.C. 5963 applies now being paid a cost-of-living bonus, not pursuant to the provisions of P.C. 8253, established prior to the effective date of that Order, in an amount exceeding \$4.25 per week, the amount of the bonus shall remain unchanged,
(ii) for such employees now being paid a cost-of-living bonus of less than \$4.25 per week, the amount of the bonus shall be increased up to sixty cents (60c) per week, but in no case to exceed a total weekly bonus of \$4.25;
- (2) (i) for employees to whom Section 48 (iii) (b) of P.C. 5963 applies, now being paid a cost-of-living bonus, not pursuant to the provisions of P.C. 8253, established prior to the effective date of that Order, in an amount exceeding 17% of their weekly wage rates, the amount of the bonus shall remain unchanged,
(ii) for such employees now being paid a cost-of-living bonus of less than 17% of their weekly wage rates, the bonus shall be increased up to 2.4 points, but in no case to exceed a total weekly bonus of 17% of their weekly wage rates;
- (e) the adjustment or payment of a cost-of-living bonus calculated as ordered shall be to the nearest cent of any fractional figure;
- (f) employers in the construction industry shall adjust the amount of any cost-of-living bonus required by

SALVAGE

paragraph (a) of this Order only for employees in respect of whom no special bonus arrangement has been made with the approval of a War Labour Board, pursuant to the provision of the Order for the conduct of the National Joint Conference Board of the Construction Industry.

HUMPHREY MITCHELL,

Chairman.

Ottawa, 4th August 1942

SALVAGE

The Director of Public Information, Ottawa, in his monthly publication "Canada at War" is giving Canadians some helpful information in many directions.

The vital necessity for the salvaging of scrap and waste material, he stated recently, has been strongly emphasized by events of the past few months. Canada's war production is getting into high gear. More and more raw materials are being poured into factories turning out increasing quantities of munitions and equipment. Japanese aggression in the Far East has placed tin, rubber and vegetable oil on the "critical" list. Steel, copper, zinc, lead, brass, glycerine and paper are needed in such vast quantities that every source of supply in the country must be tapped if the machinery of total war is to remain operating at top speed.

The Director of the National Salvage Campaign has appealed for co-operation in saving and recovering scrap of all kinds: to manufacturers to turn in old, unusable machinery, to store and hotel keepers to undertake "housecleaning" of their premises to release various kinds of metal equipment, to farmers to collect disused farm machinery and old milk and cream cans, to housewives to save fat, bones, bottles, papers and rags, and to all women's and young people's organizations to give voluntary help in the work of collecting salvage and making it available to the government. The railways now allow special rates on cars of mixed salvage shipped from outlying points to the nearest sorting centre.

Over 70 million pounds of waste paper have been collected. Its value to the munition factory can be gauged by the following figures. One ton of waste paper will produce material for any of the following:

- 1,500 shell containers
- 9,000 shell fuse component parts
- 47,000 boxes for small arms ammunition
- 3,000 boxes for aero cannon shells
- 1,000 packing cases for two-pounder shells

Waste paper is also converted into wallboard for building war plants and housing the armed forces.

Tin foil and tubes, which have contained toothpaste and other products can be melted down, purified, and used a number of times with only small loss.

An old automobile will yield enough scrap to make a tank cannon; 25 will build a tank. About 100,000 cars are scrapped annually, and owners of automobile "graveyards" are being asked to speed up the stripping of salable parts, and turn in the rest for steel scrap. For every ton of steel produced by the steel mills, a ton of scrap must be made available to feed the furnaces.

Housewives, who have already made valuable contributions in the form of discarded aluminum pots and pans, are now saving surplus or inedible fat for conversion into soap and glycerine. Rags are in great demand as machinery wipers in war factories. About 25,000 tons of scrap rubber are urgently needed.

There are at present 3,000 local salvage committees in Canada in operation, involving about 125,000 active salvage workers. Thousands of tons of vital materials are being turned back into industry—materials that before the opening of the salvage campaign would have been relegated to the furnace or garbage dump.

ECONOMIC NOTES

Editor's Note: This is one in a series of articles on current economic subjects by Professor W. J. Wainess, M.A., and Professor W. H. Poole, M.A., of the University of Manitoba.

THE occupation of the Prairie lands proceeded with little discrimination. There were no classification of resources, no soil surveys, no climatic records to guide either the government or the unwary settler The selection of land was left largely to chance and to the devices which colonization agents, railways and land companies employed in their own immediate interests Adjustments to the vagaries and failings of nature were left to time and bitter experience." (Report of the Royal Commission on Dominion-Provincial Relations, Book (1), pp. 66 and 67.) As a result of much indiscriminate land settlement in the Prairie Provinces considerable land which was later to prove unprofitable was brought under the plough. During the present war, and in the post-war period, drastic readjustments in agricultural practices on the Prairies will no doubt have to be effected. In order that certain glaring mistakes of the past be avoided it is imperative that we have a complete and accurate land use classification. One study along this line which is worthy of wide publicity is that conducted by Professor Andrew Stewart, of the University of Alberta, and Mr. W. D. Porter.¹ This study is concerned principally with the problem of the dry areas of Alberta and is intended "primarily as a guide to the use of land, to the end of securing a greater measure of stability than has been experienced in the past."

Fundamentally the problem of the dry areas of Western Canada is instability resulting from recurring periods of expansion and contraction. Due to variations in weather and price, returns to the farmer may vary greatly from year to year. In a period when both weather and prices are favourable expansion tends to take place. Conversely, when weather and prices are unfavourable contraction occurs. Land classification for use, therefore, involves estimating the returns which farmers may expect, *in the long run*, from the use of specified parcels of land. This is the essence of the method used by the authors in their report. Their

¹Stewart and Porter: *Land Use Classification in the Special Areas of Alberta*. Dominion of Canada, Department of Agriculture, Publication No. 731.

classification is based primarily on estimated net revenues, modified by consideration of the peculiarities of individual parcels of land.

The area with which this report deals includes the Special Municipal Areas of Neutral Hills, Sullivan Lake, Sounding Creek, Berry Creek, Tilley East and Bow West; the municipality of Acadia Valley and six townships in the municipality of Rosenheim. The total land area involved is slightly over eight million acres. The land in the area is used principally for wheat growing and grazing of livestock. Normally the bulk of the revenue comes from wheat so that the land classification is based "on a typical, relatively specialized, wheat-producing farm unit and indicates the suitability of land for this form of production."

Lands are classified as marginal, sub-marginal or supra-marginal. Marginal land, which is at the centre of the problem, is land from which anticipated revenue is just equal to production costs. Costs include payments for such items as feed, seed, labour, fuel, taxes, depreciation, etc., *plus* an "adequate" return to the farmer for his own effort and enterprise. Costs do not, however, include payments for the use of land. "Marginal land . . . is land which, without payment for its use, may be expected to provide a return to the farmer merely sufficient to induce continuity of production." Land is classified as sub-marginal if, without payment for its use, it would not yield returns sufficient to induce the farmers to cultivate the land permanently. Supra-marginal land would yield a net revenue, that is, a surplus of revenue over production costs. Land classifications must, of course, be based on a specified use of land. Land classified as sub-marginal for specialized wheat production may be marginal, or above the margin, for some other use.

The gross revenue and production costs are themselves determined by a number of factors—the product (or products) produced, prices, output, size of the farm unit, method of production used, ability of the farmer, and so forth. The estimated net revenue for any parcel of land will depend upon the assumptions regarding each of these conditions and "the validity of any classification based on net revenue will depend on the reasonableness of the assumptions made." The authors set out in considerable detail

the reason for the various assumptions they make and which form the basis of their estimates of net revenue.

From the point of view of wheat production four classes of land are determined. Sub-marginal land (Land Class I) includes parcels which, without payment for their use, could not be expected, over a period of years, to provide farmers (operating on a three-quarter-section farm) with returns equivalent to the long-run wages and board of a hired man, that is, \$585. Such land is unsuitable for wheat production and might better be used for grazing. Marginal land (Land Class II) includes parcels which would provide the farmer with returns between \$585 and \$891, the latter figure being the level of past cash family living expenses of farm families. Such marginal lands should probably be used, not for wheat production alone, but in a combined wheat-growing and grazing unit. The classification is extended to include two classes of supra-marginal land (Land Classes III and IV). Land parcels in both these classes could be expected to provide the farmer with a net revenue. Such land may be considered suitable for wheat production.

The outstanding feature of the area surveyed is the large proportion of the land parcels, about 80%, classified as sub-marginal for wheat production. "The conclusion that so large a part of the territory must be considered as suitable only for grazing will not surprise those familiar with this part of the province." The area lies in one of the most arid parts of the Prairie Provinces and its history has shown that cereal production is an extremely hazardous undertaking. Less than 7% of the land in the entire area is classified as supra-marginal for wheat production.

Such land classifications provide much useful information and should prove of inestimable value to administrators, and others interested in the *optimum* utilization of land in Western Canada. They disclose where problems of adjustment exist. Movement of settlers from sub-marginal lands, redistribution of population within areas, adjustment of land use as between cereal production and grazing, and the direction of future land use are only a few of the problems that adequate land classifications will help to solve. It is to be hoped that many more studies of the high calibre of the one synopsized here will be forthcoming.

Winnipeg,
14th August 1942.

W. H. POOLE.

GENERAL NOTES

Index Figures of Living Costs

The cost-of-living index in Canada advanced from 116.7 on 1st June 1942 to 117.9 on 2nd July 1942 (Previous reference—page 127 of August issue. See also memorandum on Cost-of-Living Bonus at page 313 of the current issue.)

Table of Exchange Rates

(Kindly supplied by The Canadian Bank of Commerce, Toronto)

	31st July 1942	15th August 1942
U.S. Dollars	10-11% P.	10-11% P.
Sterling	443-447	443-447
Australian Pounds	358½	358½
New Zealand Pounds	360	360
South African Pounds	443	443
British West Indies—Dollars .	9270	9270
India—Rupees	3356	3356
Hong Kong—Dollars (Custodian rate)	2781	2781
Straits Settlements— Dollars (Custodian rate)	5226	5226
Sweden—Kronor	2637	2637
Switzerland—Francs	2569	2569

Note: The above currencies are expressed as follows: Pound currencies—Canadian cents per unit; Continental currencies and sundry British Empire—Canadian cents per 100 units.

Deposit Certificates

Arrangement for the sale to Canadian chartered banks of Dominion of Canada deposit certificates has been announced by the Minister of Finance.

The certificates will be sold at par to the chartered banks by the government from time to time, pending the next government public financing. The first issue will be for \$75,000,000 and will be dated 29th July 1942. The certificates will bear interest at three-quarters of 1% annually and will mature twenty-six weeks after the issue date. It is expected offerings will be made weekly for some time, although the average sales will be for substantially smaller lots than the 29th July issue.

PROVINCIAL NEWS

The new deposit certificates are similar in many respects to treasury deposit receipts which are issued by the British Treasury. It is pointed out by the Minister of Finance that the system has worked extremely well in Britain, providing the government with a highly flexible short-term method of financing. The amounts can be varied easily to meet requirements.

Proceeds of the sale of deposit certificates by Canada will assist the government in financing war expenditure before the next public loan.

It is estimated that the government will spend \$3,900,000,000 this year on war and ordinary government costs. Of this amount, \$1,850,000,000 will have to be financed by borrowing and reduction in cash balances.

PROVINCIAL NEWS

ALBERTA

The Institute of Chartered Accountants of Alberta announces that, subject to the formal approval of the General Faculty Council of the University of Alberta, the following are the successful candidates of the Institute in the June 1942 Final examination: Charles A. Clouston, Thomas Logie, Neil A. Morris, Donald J. Morrison and Duncan Stuart. The following were granted supplemental examinations: Charles H. Douglas, Samuel F. Marshall, David B. McClure and Desmond R. Redman.

Subject to the approval of the Council of the Institute Donald J. Morrison is eligible for the book prize.

PERSONALS

Edward C. Shaughnessy, a member of the Institute of Chartered Accountants of Alberta, announces his resignation as Superintendent of Income Tax, Province of Alberta, and the opening of an office for the general practice of accountancy in the National Trust Building, Edmonton, Alberta.

STUDENTS' DEPARTMENT

R. G. H. SMAILS, C.A., Editor

NOTES AND COMMENT

We thought of those our readers who are in the Royal Canadian Ordnance Corps when in T. H. White's *The Ill-Made Knight* we read a description of the armoury of the castle of Benwick where young Lancelot Dulac was receiving at the hands of his Uncle Dap the instruction which was to qualify him as a Knight of King Arthur's Round Table. "In various corners there were pushed, in order to leave a free space in the middle of the room, a collection of gymnastic apparatus such as quintains and so forth, while Uncle Dap's desk stood near the door. On the desk there were splattering quill pens, blotting sand, sticks for beating Lancelot when he was stupid, and notes, in unutterable confusion, as to which jupons had lately been pawned—pawning was a great institution for valuable armour in those days—and which helms had been brought up-to-date with a glancing surface, and whose vambrace stood in need of repair, and what had been paid to whom for fforbeshynge which when. Most of the accounts were wrongly added up".

* * *

The pros and cons of substituting estimated replacement values for recorded costs in accounting records and statements are more adequately and intelligently discussed by Paton and Littleton in *An Introduction to Corporate Accounting Standards* (pp. 122 et seq.) than in any text we know. The authors, as might be expected by anyone familiar with their accounting philosophy, come to the conclusion that what is needed to improve the measurement of periodic income is not a recourse to valuation but a more rigid application of cost as the standard basis of carrying assets in the accounts. They charge that "Present standards are unduly lax in permitting periodic revaluation of resources, up or down, in accordance with current price levels and expected business developments." But they add "This emphasis upon the cost basis does not deny the propriety of financial reorganization . . . when this becomes clearly necessary . . .

STUDENTS' DEPARTMENT

Nor does it deny that data other than recorded costs may have real significance and usefulness." This last thought they expand to mean that the accountant should encourage the development of ways and means of reporting supplementary data by such devices as footnotes, text to accompany account titles, parenthetic figures, and extra columns.

* * *

PROBLEMS AND SOLUTIONS

THE PROVINCIAL INSTITUTES OF CHARTERED ACCOUNTANTS

Solutions presented in this section are prepared by practising members of the several provincial Institutes and represent the personal views and opinions of those members. They are designed not as models for submission to the examiner but rather as such discussion and explanation of the problem as will make its study of benefit to the student. Discussion of solutions presented is cordially invited.

PROBLEM I

INTERMEDIATE EXAMINATION, DECEMBER 1941

Accounting I, Question 5 (40 marks)

The following trial balance of Exclusive Appliances Limited (Dominion incorporation) as at 31st. July 1941 has been extracted from the books of the company and you are required to prepare:

(a) Operating statements for the financial year then ended.

(b) Balance sheet as at 31st July 1941.

Cash on hand	\$ 200
Cash in bank	12,527
Accounts receivable	56,140
Inventories	60,964
Investments	2,500
Goodwill	4,500
Raw material purchases	243,272
Buildings	46,000
Machinery and Equipment	27,650
Land	8,000
Office salaries	9,760
Office supplies	1,620
Bank charges and exchange	372
Directors' fees	1,000
Discounts allowed	2,437
Interest on bank loan	1,964
Direct labour	73,599
Plant superintendent's salary	5,000
Light, heat and power	2,200
Taxes—property	1,600
Insurance	520
Machinery repairs	550
Manufacturing supplies purchased	1,515
Miscellaneous manufacturing expense	530

THE CANADIAN CHARTERED ACCOUNTANT

Warehouse wages	1,800	
Packing materials	620	
Advertising	864	
Sales salaries and commissions	7,436	
Reserve for bad debts		\$ 305
Reserve for depreciation—buildings		4,600
Reserve for depreciation—machinery and equipment		5,530
Accounts payable		29,166
Bank loan secured under Section 88 Bank Act		25,000
Surplus		15,434
Sales		372,950
Discounts received		2,065
Income from investments		90
Preference share capital—6% (Authorized 500 shares of \$100 each)		50,000
Common share capital (Authorized 700 shares of \$100 each)		70,000
	<u>\$575,140</u>	<u>\$575,140</u>

Your examination of the books and records discloses the following:

(1) Accounts receivable include a loan to a shareholder for \$5,000, the balance being ordinary trade accounts.

(2) The reserve for bad debts is to be brought up to 10% of the outstanding trade accounts at 31st July 1941.

(3) Inventory as taken by the company at cost includes the following items:

	31st July 1940	31st July 1941
Raw materials	\$27,461	\$30,078
Work in process	6,326	7,139
Finished goods	24,372	26,005
Manufacturing supplies	505	570
Advertising folders and pamphlets	2,300	1,000
Total	<u>\$60,964</u>	<u>\$64,792</u>

(4) During the year a small fire in the factory destroyed supplies which cost \$460 and finished goods costing \$1,400. Under co-insurance clauses the fire insurance settlement amounted to \$300 and \$1,200 respectively, this total of \$1,500 being credited to merchandise sales.

(5) The investments consist of \$2,000 provincial 4½% bonds with a market value of \$1,800 and 5,000 shares of Glen Mines Ltd. costing \$500 on which no market quotation is available.

(6) The buildings were acquired from a predecessor company for \$40,000 appraised on 5th August 1938 at \$46,000 which value was recorded on the books. Depreciation at 5% to be provided on the appraised valuation.

(7) Light, heat and power, property taxes and depreciation on buildings are to be based on the following percentages—factory 70%, warehouse 20%, administration 10%.

(8) Depreciation on machinery and equipment to be calculated at 10%. Office equipment included in the asset account totals \$2,000.

STUDENTS' DEPARTMENT

(9) Insurance policies all expire 31st July 1941. Treat insurance as a manufacturing charge.

(10) Contracts to purchase \$240,000 of raw materials have been signed at prices prevailing at 31st July 1941 for future delivery at the rate of \$40,000 per month. The directors are of the opinion that prices are likely to rise and that the usual method of monthly purchasing would not give sufficient protection.

(11) Dividends paid during the year equal 6% on both preference and common shares.

(12) Provide for income and excess profits taxes at 40% of the net profit.

SOLUTION

EXCLUSIVE APPLIANCES LIMITED

MANUFACTURING STATEMENT

For the Year Ended 31st July 1941.

Work in process at 31st July 1940		\$ 6,326
Raw material used		
On hand 31st July 1940	\$ 27,461	
Purchases	243,272	
	270,733	
On hand 31st July 1941	30,078	240,655
Direct labour		73,599
Factory overhead		
Superintendent	5,000	
Light, heat and power	1,540	
Property taxes	1,120	
Building depreciation	1,610	
Insurance	520	
Supplies	990	
Machinery depreciation	2,565	
Machinery repairs	550	
Miscellaneous	530	14,425
		335,005
Deduct:		
Work in process at 31st July 1941		7,139
Cost of goods manufactured (carried to statement of profit and loss)		\$327,866

THE CANADIAN CHARTERED ACCOUNTANT

EXCLUSIVE APPLIANCES LIMITED

PROFIT AND LOSS STATEMENT

For the Year Ended 31st July 1941

Sales		\$371,450
Cost of Goods Sold		
On hand at 31st July 1940	\$ 24,372	
Goods manufactured as per manufacturing statement	327,866	
	<u>352,238</u>	
Less cost of goods destroyed by fire	1,400	
	<u>350,838</u>	
On hand at 31st July 1941	26,005	324,833
Gross Profit		<u>46,617</u>
Warehouse Expenses		
Wages	\$ 1,800	
Packing	620	
Property taxes	320	
Building depreciation	460	
Heat, light and power	440	3,640
Selling Expenses		
Salaries and commissions	7,436	
Advertising	2,164	9,600
General and Administration Expenses		
Office salaries	9,760	
Office supplies	1,620	
Property taxes	160	
Building depreciation	230	
Heat, light and power	220	
Equipment depreciation	200	
Bank charges and exchange	372	
Directors' fees	1,000	13,562
Estimated loss by bad debts	4,809	31,611
Operating Profit		<u>\$ 15,006</u>
Miscellaneous income and expenditure		
Discounts allowed	\$ 2,437	
Less discounts received	2,065	
	<u>372</u>	
Interest on bank loan	1,964	
Fire loss on goods and supplies	360	
	<u>2,696</u>	
Less Income from investments	90	2,606
Profit before providing for income and excess profits taxes ..		<u>12,400</u>
Provision for income and excess profits taxes		<u>4,960</u>
Net profit for the year ended 31st July 1941 carried to earned surplus		<u><u>\$ 7,440</u></u>

STUDENTS' DEPARTMENT

EARNED SURPLUS STATEMENT

For the Year Ended 31st July 1941

Balance at 31st July 1940		\$ 16,634
Dividends paid:		
Preference shares 6% on \$50,000.....	\$3,000	
Common shares 6% on 70,000.....	4,200	7,200
		<u>9,434</u>
Profit for the year ended 31st July 1941 as per profit and loss statement		7,440
Balance of earned surplus shown on balance sheet		<u>\$ 16,874</u>

(b) EXCLUSIVE APPLIANCES LIMITED

BALANCE SHEET

As at 31st July 1941

ASSETS

Current

Cash on hand	\$ 200	
Cash in current bank account	12,527	\$12,727
Accounts receivable	51,140	
Less Reserve for bad debts	5,114	46,026
Advances to shareholders		5,000
Inventories as determined and certified by the management, at cost:		
Raw materials and supplies	30,648	
Work in process	7,139	
Finished goods	26,005	63,792
Provincial 4½% bonds at cost (Market value \$1,800)	2,000	\$129,545
Prepaid expenses—advertising		1,000
Investment, at cost—		
5,000 shares Glen Mines Ltd.		500

Fixed

Buildings as appraised by the XYZ Appraisal Co. on 5th August 1938	46,000	
Less Reserve for depreciation	6,900	39,100
Machinery and equipment, at cost	27,650	
Less Reserve for depreciation	8,295	19,355
Land, at cost	8,000	66,455
Goodwill		4,500
		<u>\$202,000</u>

THE CANADIAN CHARTERED ACCOUNTANT

LIABILITIES AND CAPITAL

Current

Bank loan secured under Sec. 88 Bank Act	\$ 25,000	
Accounts payable	29,166	
Income and excess profits taxes	4,960	\$ 59,126

Capital and Surplus

Capital authorized and issued:

6% preference shares 500 of \$100 each ..	\$50,000	
Common shares 700 of \$100 each	70,000	120,000

Surplus:

Earned surplus as per statement	16,874		
Surplus arising from appraisal of build- ings on 5th August 1938	6,000	22,874	142,874
			<u>\$202,000</u>

NOTE: Forward purchase contracts have been entered into for \$240,000 of raw materials requiring payment and delivery at the rate of \$40,000 monthly.

PROBLEM II

FINAL EXAMINATION, DECEMBER 1941

Accounting II, Question 3 (25 marks)

An investor purchased a property and business which he proposed to operate mainly as a jobbing mechanical shop. He desires to have such records that each job or contract taken will be accounted for both as to billing and cost. The performance of such contracts will involve material (on some jobs), shop labour, use of machines and overhead. He proposes to draw off at the end of each month a summary of billings and costs, showing the position of each job or contract. The costs of those billed during the month will be transferred to "Cost of sales." Those not completed or billed will be carried as "Work in hand." Occasionally some items of cost may develop and have to be taken into account after certain jobs have been billed. The monthly summary above mentioned will be used for the book entry with respect to sales or billings and the transfer to cost of sales of costs applicable thereto.

Required:

(a) Outline the operation of an appropriate system and draft the form of necessary records and the monthly summary.

(b) Outline also the book entries necessary each month in the operation of the system.

SOLUTION

Each job or contract should be given a number when taken, and particulars be recorded on sheets which will serve as a "Work in hand" ledger and also as a medium for recording costs. These sheets should be designed as follows:

STUDENTS' DEPARTMENT

Job No.....					
Date taken	Quoted price (if so) or cost plus profit				
Customer	Address				
Terms					
Description of work					
<i>Cost Record</i>					
Date	Reference	Materials	Labour	Overhead	Total
Invoiced — Date		Invoice No.		Amount \$	

Workmen should report their time and materials deliveries should be recorded under the respective job numbers.

From monthly distribution statements of materials and labour the amounts applicable should be posted to the individual sheets in the work in hand ledger.

A rate should be determined for applying a charge for overhead which will include use of machines. This rate could either be a percentage of labour or of labour and materials, or of separate percentages on both labour and materials.

The monthly summary would be a transcript of all open numbers in the work in hand ledger. Its form would be as follows:—

Job No.	Costs of work in hand		Costs billed		Delayed costs		Invoiced		Profit		Loss	
—	—	—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—	—	—

The total of the "Invoiced" column would be the total of sales for the month. The combined totals of the columns "Costs billed" and "Delayed costs" would be the amount to be transferred to Cost of sales. The total of "Costs of work in hand" would agree with "Work in hand" account in the general ledger.

THE CANADIAN CHARTERED ACCOUNTANT

The regular monthly entries would be:

- | | | |
|---|---|---|
| 1. Dr. Work in hand (List of Job Nos.) | — | — |
| Cr. Materials | | — |
| Summary of materials used. | | |
| 2. Dr. Work in hand (per list of Job Nos.) | — | |
| Cr. Wages payable | | — |
| Wages earned for the month. | | |
| 3. Dr. Work in hand (per list) | — | |
| Cr. Overhead absorbed in costs | | — |
| Percentage applied. | | |
| 4. Dr. Accounts receivable | — | |
| Cr. Sales | | — |
| Total of "Invoiced" column in monthly summary. | | |
| 5. Dr. Cost of sales | — | |
| Cr. Work in hand (per list) | | — |
| Total of columns "Costs billed" and "Delayed Costs" in monthly summary. | | |

PROBLEM III

FINAL EXAMINATION, DECEMBER 1941

Accounting II, Question 4 (20 marks)

A company, manufacturing articles comprised mainly of metals but requiring certain wooden parts, had been purchasing such parts under contract from a concern operating a wood working plant. The company became dissatisfied with deliveries and quality of materials, and efforts to correct the situation led to the purchase by the company of the wood working plant.

It was decided to continue the business of the latter with outside parties as well as to supply the wooden parts required by the company itself.

It was also decided to incorporate the accounts of the wood working plant in the books of the manufacturing company but it was desired not to disturb its own system of costs. At the same time the company desired to know whether the wood working plant was contributing additional profit or was, in fact, causing the wooden parts required to cost more than formerly.

Both the company and the wood working plant rented the premises occupied by them.

After the acquisition of the wood working plant the company invoiced sales of wood products along with its own original products on its regular billheads. Invoices for the wooden parts required by the company were rendered to itself.

STUDENTS' DEPARTMENT

Prior to the purchase of the wood working plant the operating accounts carried by the company were as follows:

Sales

Purchases (of materials and supplies)

Inventories

Rent

Manufacturing wages

Indirect wages

Manufacturing expense

Depreciation

Administrative expense

Selling expense.

It was decided to apply an appropriate proportion of administrative and selling expense to the wood products division.
Required:

(a) Outline the operating accounts in the ledger after incorporating the purchase of the wood working plant and providing for its operation.

(b) Prepare a pro forma operating statement showing the results of each department and their consolidation.

SOLUTION

1. (a) Sales company

Sales wood products receivable

Sales wood products contra

Purchases for company manufacturing

Purchases for wood products division

Purchases wood products contra

Inventories company products

Inventories wood products division

Rent company

Rent wood products division

Manufacturing wages company

Manufacturing wages wood products

Indirect wages company

Indirect wages wood products

Manufacturing expense company

Manufacturing expense wood products

Depreciation company plant

Depreciation wood products plant

Administrative expense company

Administrative expense applied to wood products

Selling expense company

Selling expense applied to wood products

THE CANADIAN CHARTERED ACCOUNTANT

(b) PRO FORMA OPERATING STATEMENT

Items	Wood Products Department Company	Consolidated Operating Statement
Sales		
Company products	— \$ —	\$ —
Wood products receivable	\$ —	—
Wood products contra	—	—
Total sales	—	—
Inventories at beginning	—	—
Purchases	—	—
Purchases wood products contra	—	—
Less Inventories at end	—	—
Total inventories and purchases, net	—	—
Expenses		
Rent	—	—
Manufacturing wages	—	—
Manufacturing expense	—	—
Depreciation	—	—
Total inventories, purchases and expenses	—	—
Gross operating profit	—	—
Administration	—	—
Selling	—	—
Total administration and selling ..	—	—
Net operating profit	\$ —	\$ —

